

## **LOCAL BUDGETS STUDY 2010 (AAD)**

*An analysis of local budgets in 5 provinces and 42 kabupatens and cities throughout Indonesia*

*Based on research conducted by 28 NGOs under the overall direction of the National Secretariat of the Indonesian Forum for Budget Transparency (Seknas FITRA)*

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### **Translator’s Note re Graphs:**

Unfortunately, the many graphs that feature in the Indonesian text of this document—titled “*Studi Anggaran Daerah 2010: Analisis Anggaran di 5 Provinsi, 42 Kabupaten/Kota di Indonesia*”—have not be able to be reproduced in this translation because of formatting difficulties. While the translated text is understandable and meaningful without the graphs, it is of course not as rich as it would have been with them included. Readers wishing to look at the graphs may do by consulting the Indonesian version of this publication on Seknas FITRA’s website. Any inconvenience is regretted.

## Glossary of Terms and Abbreviations

(Compiled and inserted by translator)

AAD	Analisis Anggaran Daerah—Analysis of local budgets
Adjustment funds	<i>Dana penyesuaian</i> —a form of fiscal transfer from the Center to regions: a source of “other local own-source revenue” (LPDS) (see Tables 1.2 (p.8) and 2.1 (p. 16))
APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> —local government budget as approved by DPRD
APBD-M	<i>Anggaran Pendapatan dan Belanja Daerah-Murni</i> —(unaltered) local government budget as approved by DPRD and not yet revised: same as APBD
APBD-P	<i>Anggaran Pendapatan dan Belanja Daerah-Perubahan</i> —(mid-year) revised local government budget as approved by DPRD
APBD-R	<i>Anggaran Pendapatan dan Belanja Daerah-Realisasi</i> —realized local government budget (end-of-year local budget outcomes)
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> —State Budget as approved
APS	<i>Angka Partisipasi Sekolah</i> —school participation rate
BL	<i>Belanja langsung</i> —direct expenditure (see that entry below)
BTL	<i>Belanja tidak langsung</i> —indirect expenditure (see that entry below)
DAK	<i>Dana Alokasi Khusus</i> —Special Purpose Fund
DBH	<i>Dana Bagi Hasil</i> —Revenue Sharing Fund, a mechanism for fiscal transfers from Center to regions
DAU	<i>Dana Alokasi Umum</i> —General Allocation Fund, a mechanism for fiscal transfers from Center to regions
bansos	<i>bantuan sosial</i> : social aid, a line item of indirect expenditure in Indonesian budgets available for expenditure for specific deserving social causes
dana perimbangan	Fiscal balance transfers from the Center to local governments in regions to reduce fiscal imbalances between the Center and regions and among regions
dana penyesuaian	adjustment funds (see entry above)
dekonsentrasi	the delegation of authority (and funds) from the Center to a regional government or a central government official stationed a region to perform a not yet decentralized function
direct expenditure	<i>Belanja langsung (BL)</i> : also known as “development expenditure”: costs incurred by a work unit in implementing a specific program or activity (cf. indirect expenditure)
DPD	<i>Dewan Perwakilan Daerah</i> —House of Representatives of the Regions, the “upper” chamber of the Indonesian Parliament
PDF PPD	<i>Dana Penguatan Desentralisasi Fiskal Percepatan Pembangunan Daerah</i> —Fund to Strengthen Fiscal Decentralization to Speed up Regional Development, a <i>dana penyesuaian</i> program
DPID	<i>Dana Infrastruktur Daerah</i> —Fund for the Strengthening of Local Infrastructure, a <i>dana penyesuaian</i> program
DPIP	<i>Dana Percepatan Infrastruktur Pendidikan</i> —Fund to Speed up Development of Educational Infrastructure, a <i>dana penyesuaian</i> program
DPIPD	<i>Dana Penguatan Infrastruktur dan Prasarana Daerah</i> —Fund to Strengthen Local Infrastructure and Public Facilities, a <i>dana penyesuaian</i> program
DPR	<i>Dewan Perwakilan Rakyat</i> —the House of Representatives (national parliament)
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> —local legislative assembly: the legislative

	wing of government at the provincial, kabupaten and city level
DISP	<i>Dana Infrastruktur Sarana dan Prasarana</i> —Fund for Infrastructure and Public Facilities, a <i>dana penyesuaian</i> program
FGD	Focus group discussion
Fiscal space	a government's degree of spending discretion (see footnote 13, page 27)
GDP	Gross Domestic Product
HDI	Human Development Index
HOG	head of local government (governor (province), bupati (kabupaten) or mayor (city))
indirect expenditure	<i>Belanja tidak langsung</i> (BTL): also termed "routine expenditure": common costs incurred by a work unit in implementing the whole gamut of its programs (cf. direct expenditure)
kabupaten	One of sub-national governments in Indonesia, along with provinces and cities
kecamatan	sub-district: unit of government administration immediately below level of kabupaten and city
local government	<i>Pemerintah daerah</i> —any sub-national government (provincial, kabupaten or city)
LPDS	<i>Lain Pendapatan Daerah yang Sah</i> —other lawful local revenue
PAD	<i>Pendapatan Asli Daerah</i> —local own-source revenue
PND	<i>Pendapatan Dalam Negeri</i> —domestic revenue at the national level
Pemda	<i>Pemerintah daerah</i> —any sub-national government (province, kabupaten or city)
Pemekaran daerah	the splitting of an existing region to form two new autonomous regions
Pilkada	<i>Pemilihan kepala daerah</i> : popular election (every 5 years) of a local head of government (HOG: see entry above)
PMK	<i>Peraturan Menteri Keuangan</i> —Minister of Finance regulation
Posyandu	<i>Pos Pelayanan Terpadu</i> —integrated (health) service post (most often at village level)
PP	<i>Peraturan Pemerintah</i> —central government regulation
Puskesmas	<i>Pusat Kesehatan Masyarakat</i> —community health center (usually located at kabupaten or kecamatan level)
RAPBD	<i>Rancangan Anggaran Pendapatan dan Belanja Daerah</i> —draft local budget
Region	any sub-national government area (province, kabupaten and city) in Indonesia
Retribusi	fees and charges collected by government for goods & services rendered
SIKD	<i>Sistem Informasi Keuangan Daerah</i> —Regional Financial Information System
SiLPA	<i>Sisa Lebih Penggunaan Anggaran</i> —budget surplus carried forward to next fiscal year
tugas pembantuan	co-administered function: an arrangement by which the central government directs and funds a local government to undertake a not yet decentralized activity or function on its behalf and to report back on its implementation.

# 1. Preface

## 1.1 Introduction

***One of the indicators of the extent to which government pays special attention to the poor and women is its budget policies.*** By looking at governmental decisions on budget allocations, a community can get a sense of whether government is promoting economic growth and delivering an adequate level of basic public services. Accordingly, local budgets are reflections of political intent and determine the level of welfare enjoyed by the general public.

***As a continuation of their study in 2009, 28 community organizations resumed the study of local budgets (Local Budgets Study (LBS)) and completed it during 2010-11.*** Coordinated by the National Secretariat of the Indonesian Forum for Budget Transparency (Seknas Fitra) and The Asia Foundation, the study embraced 42 kabupatens and cities and 5 provinces in Indonesia. The LBS covered two areas:

- (i) An evaluation of the performance of local governments throughout the entire budget cycle and of the extent to which their budgetary processes were in accord with principles of good governance, viz. transparency, participation, public accountability and gender-responsiveness. This study is called *Performance in Management of Local Budgets (KIPAD)*.
- (ii) An analysis of local budgets to ascertain the extent to which they have been structured and used to meet the needs of the community, especially the poor and women. This second study is called *Analysis of Local Budgets (AAD)*.

This current document only presents the findings of the AAD study. KIPAD is the subject of a separate report.

## 1.2 Research Objectives

***The aims of the AAD project were to assess the latest state of local fiscal management and to undertake a comparative study of performance in the provinces, kabupatens and cities studied.*** The study focused principally on three key elements of local budgets: revenue, expenditure and financing. In order to form a judgment on the extent to which expenditure was pro-poor, the study had a close look at public works, education and health spending in the regions studied. The extent to which governments observed gender-mainstreaming principles was also analyzed.

***This research represented an effort by civil society to provide inputs to government.*** We hope that the research findings will become a resource for kabupatens and cities in their efforts to achieve a higher level of pro-poor and pro-women spending, to reduce poverty and to deliver better public services. In the case of provinces and the central government, we hope that our research findings can be used as a tool for monitoring the quality of local government budget management performance; and will help refine budget policies and identify the kinds of technical assistance local governments need in their efforts to lift their performance. Hopefully our research will contribute to improved budget management by government at all levels—the Center, provinces, kabupatens and cities— and help to streamline the supervisory and supportive role of central and provincial governments over front-line public service providers— kabupatens and cities.

***We hope that comparisons made between the kabupatens and cities studied will create an environment of constructive competition among them.*** Each of the 42 kabupatens and cities and 5 provinces studied is a distinct entity. Hopefully, in the light of our comparative study, they can learn from each other. They

will also hopefully come to see that what one government is doing can be benchmarked by others—even though that process would not be on a par with following “best practice”, from abroad for example.

***We also hope that our research can contribute to more effective budget advocacy and more productive dialogue between civil society and government.*** Civil society networks were involved in our research in a number of areas. Hopefully that experience will make civil society organizations (CSOs) more adept at undertaking research and help them to become more effective advocates of pro-poor and pro-women budgeting and public policy. Evidence-based advocacy will, we hope, enhance the quality of dialogue between stakeholders and increase the likelihood that CSOs’ advocacy campaign will have the desired impact.

### 1.3 Methodology

***This research was carried out by way of an analysis of local budget (APBD) documents and various other types of development and financial data for the period 2007-10.***<sup>1</sup> The main documents collected in various regions and analyzed in this study are tabulated in Table 1.1. Other kinds of data were used to verify and enrich the analysis: budgetary information from the Ministry of Finance in its *Regional Financial Information System (SIKD)* and in its data on regional fiscal balance funding and regional adjustment funding; the results of the 2010 Population Census (Central Bureau of Statistics (BPS)); and a variety of data on development in various sectors.

**Table 1.1 Main Regional Documents Analyzed**

No.	Document	Years analyzed
1	Local regulations on APBDs and local HOG regulations providing details of APBDs	2007-10
2	Local regulations on APBD-Ps and local HOG regulations providing details of APDB-Ps	2007-09
3	Local regulations on public accountability reports on APBDs and local HOG regulations on the same matter.	2007-10
4	Documents on budget outcomes for local government departments responsible for education, health (and hospitals), public works, the regional secretariat, female empowerment and family planning.	2007-10
5	Work plans for local government departments responsible for education, health, public works, female empowerment and family planning.	2007-10
6	Regional Development in Figures	2009-10

***In general analysis focused on three principal elements of APBDs, viz. revenue, expenditure and financing.*** The LBS team analyzed APBDs as a whole (see Table 1.2 for details of budget structure), the three sectors most likely to help alleviate poverty (education, health and public works) and local financing & fiscal space as reflected in APBDs. In general, budget appropriations were analyzed— both in terms of nominal value (at current prices) and real value (based on constant prices). We considered their rate of growth; their relative size vis-à-vis total budgets and local GDP numbers; the proportion of direct expenditure (BL) and indirect expenditure (BTL) involved; and how appropriations measured up in terms of service users (population, school pupils) and outcomes (e.g. length of roads, number of class rooms).

<sup>1</sup>The study took into account the four stages of the Indonesian budgetary cycle: the draft budget (RAPBD) containing work plans and budget estimates, the approved (and as yet unrevised) annual budget (APBD or APBD-M), the mid-year revised budget (APBD-P) and the end-of-year realized budget report (APBD-R). In general, analysis focuses on budget outcomes (APBD-Rs) for the years 2007-09 and unrevised budgets (APBD-Ms) for 2010. Comparisons were also made between APBD-Rs and APBD-Ps to assess the quality of budget revision processes.

Several important programs in the three sectors under study were also analyzed. Our research also examined funding directed at gender mainstreaming and programs to empower women.

**Table 1.2 Structure of APBDs Based on Home Affairs Ministerial Regulation 13/2006**

INCOME		SPENDING	
1.	Local Own-Source Revenue (PAD)	1.	Indirect expenditure (BTL)
a.	Local Taxes	a.	Personnel
b.	Local fees and charges	b.	Interest
c.	Locally Owned Enterprise Profits	c.	Grants
d.	Other Lawful Own-Source Revenue	d.	Social aid
2.	Regional fiscal transfers from the Center	e.	Payments of shared revenue to prov./other pemda/villages
a.	Revenue Sharing Fund (DBH)	f.	Fiscal aid to prov./other pemda/villages
b.	General Allocation Fund (DAU)	g.	Unanticipated spending
c.	Special Allocation Fund (DAK)	h.	Other
3.	Other Lawful Own-Source Revenue (LPDS)	2.	Direct expenditure (BL)
a.	Grants	a.	Personnel
b.	Emergency Funds	b.	Goods & services
c.	Share of Tax Revenue from province & other local governments (pemda)	c.	Capital items
d.	Adjustment and Special Autonomy Funds		
e.	Fiscal Aid from prov. & other pemda.		
f.	Other Lawful Local Revenue		
SURPLUS/DEFICIT			
IT			
FINANCING-RELATED INCOME		FINANCING-RELATED OUTGOINGS	
1.	Previous year's budget surplus (SiLPA) carried forward	1.	Establishment of reserve funds
2.	Liquidation of reserve funds	2.	Local investment
3.	Proceeds from sale of local assets	3.	Repayment of loan capital
4.	Interest on local government loans and bonds	4.	Provision of local loans
5.	Repayments of capital of locally lent funds	5.	Other outgoings
6.	Receipt of repayment of debts owing		
7.	Other receipts		
NET FINANCING			
BUDGET SURPLUS			

***This research analyzed the budgets of 26 kabupaten, 16 city and 5 provincial governments (see Graph 1.1).*** The areas studied were also target areas of the *Civil Society Initiative against Poverty* (CSIAP) and the *Gender Responsive Budget Initiative* (GBRI) developed by the Asia Foundation and local partners. CSIAP and GBRI have virtually the same objective: to strengthen the role played by civil society groups (both NGOs and other organizations) in changing local budgetary policies to make them more pro-poor and gender-responsive. CSIAP is supported by the British Government (Department for International Development (DFID)) and GRBI by the Dutch Government (Royal Netherlands Embassy).

***The research involved 28 local NGOs.*** At the national level, Seknas FITRA acted as research coordinator. It played a monitoring and capacity-building role in respect of other NGO groups. All the while, 28 local NGOs gathered and entered data, and undertook analyses of their respective areas.



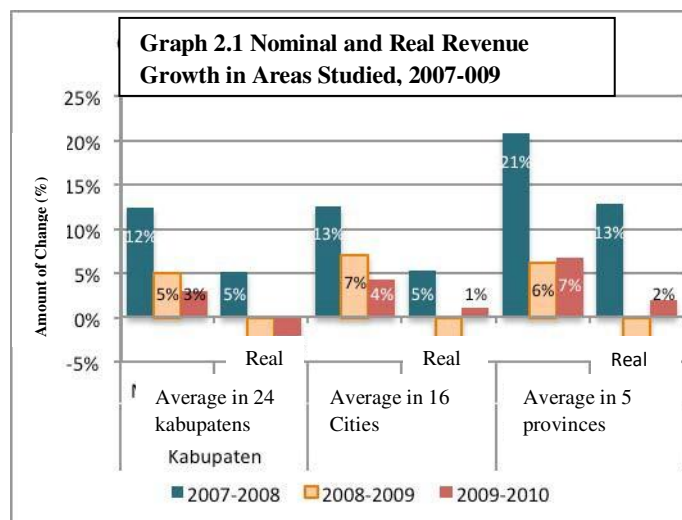
**Graph 1.1 Areas Researched in the Local Budgets Study (LBS)**



## 2. Analysis of Local Revenue

### 2.1 Analysis of Growth of Local Revenue

*Although nominal local budget revenue increased continuously in the period 2007-10, its rate of growth slowed during the period and in fact fell in real terms in 2008-09.* Local budget revenue growth was very strong in 2007-08, reaching 13% in real terms for the provincial governments studied. Nevertheless, the high rate of inflation in 2008—on average 10.3% in the 24 kabupatens<sup>2</sup> and 11.0% in each of the 16 city and 5 provincial governments surveyed—turned the nominal rate of growth of between 5% and 7% into a negative figure. This situation persisted in the following year within kabupatens. An average nominal growth rate of only 3% in 2009-10 was again turned into a negative number in real terms, given inflation for 2009 stood at 5.2%.<sup>3</sup>



*Revenue in city areas grew more strongly than in kabupatens (Graph 2.1).* Although revenue in cities fell by an average of 4% in 2008-09, it was nonetheless higher than in kabupatens (where it fell by as much as 5%). In the 16 cities under study, revenue grew at an average of 1%, whereas in kabupatens it fell by 2%.

*As illustrated in Graph 2.2, except for 2008-09, revenue grew more strongly in the 5 provincial governments than in the kabupatens and cities under study.* South Sumatera's government suffered a very significant decrease in revenue in 2008-09, falling 7% in nominal terms (16% in real terms). Only East Java's government was able to increase its revenue in 2008-09 (up 1%), while the other 3 suffered declines in real revenue. In 2007-08, the opposite had happened: the revenue of all five provincial governments had grown strongly by between 11% (South Sumatera) and 15% (West Java) in real terms. In 2009-10 the average rate of revenue growth in provincial governments was positive, with strong growth rates in two—South Sumatera (31% nominal, 18% real) and West Nusa Tenggara (12% nominal, 8% real)—counterbalancing negative growth in real terms in the other three.

<sup>2</sup> Not included in this calculation are North Gorontalo which was formed only in 2007 and West Lombok which was divided to become West Lombok and North Lombok in 2008.

<sup>3</sup> Given that projected revenue in APBD-MS was generally lower than actual revenue in APBD-Rs (see discussion in **Chapter 4**), the rate of decline in real revenue in the kabupatens was possibly even greater.

### Graph 2.2 Nominal and Real Revenue Growth in 5 Provincial Governments, 2007-10

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**Three cities (Surakarta, Padang and Surabaya) as well as West Sumbawa and North Gorontalo<sup>4</sup> had the highest average revenue growth rates during 2007-10.** North Gorontalo's revenue rose dramatically in light of its status as a new kabupaten (formed only in 2007). In real terms its revenue jumped 336% (2007-08) and 66% (2008-09), but declined in 2010 even in nominal terms. In the case of West Sumbawa, real revenue rose by 19% (2009-2010) because of an agreement between the kabupaten government and a mining company that promised grant funding of around Rp 63 billion<sup>5</sup> in 2010. In addition, there was an increase under other lawful own-source revenue (LPDS) of Rp 11 billion bringing total revenue to Rp 22 billion.

### Graph 2.3 Revenue in 10 Kabupatens with the Highest and Lowest Growth Rates, 2007-10, Based on Constant 2007 Prices

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and RAPBDs for 2010, processed by Seknas FITRA

**The three kabupatens in Aceh and the cities of Banjar and Palu had the lowest average rate of revenue growth among the 42 kabupatens and cities under study.** Revenue in the 3 kabupatens in Aceh declined sharply in 2009 as a result of a decline in Revenue Sharing Fund (DBH) allocations. Based on constant 2007 prices, North Aceh's DBH receipts declined from Rp 467 billion (2008) to Rp 294 billion (2009), those of Aceh Besar from Rp 48 billion to Rp 26 billion and those of West Aceh from Rp 40 billion to Rp 25 billion. Meanwhile, the city of Banjar sustained drastic drops in revenue of 25% in 2008 and 17% in 2010, principally as a result of a decline in receipts from the General Allocation Fund (DAU) from Rp 274 billion (2008) to Rp 177 billion in 2009. As for the city of Palu's declining revenue, the main contributing factor was declining levels of provincial and other government fiscal aid from Rp 25 billion in 2009 to just Rp 2 billion in its APBD-M in 2010.

## 2.2 Analysis of Revenue Per Person

**In general, the revenue of a kabupaten or city was in direct proportion to its total population (see Graph 2.4).** The average revenue of the 42 kabupatens and cities for the 4 years studied (2007-10) was Rp 653 billion/year; and their average population was 770 000 people (2010). Of the 42, the city of Surabaya topped the list both for revenue (Rp 2.3 trillion/year) and population (2.8 m). By contrast, North Gorontalo had the lowest revenue (only Rp 161 billion/year) and was second lowest in terms of population (just 104 000). The city of Padang Panjang was the least populated urban area (47 000) and had the second lowest level of revenue (Rp 232 billion/year).

### Graph 2.4 Average Revenue (2007-10, Based on Constant 2007 Prices) Compared to Total Population

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007, APBD-Ms for 2010 and 2010 Population Census results, processed by the LBS team

**Revenue per person was higher on the islands of Sumatera, Kalimantan and Sulawesi than on Java and Lombok.** Small populations outside Java and Lombok resulted in much higher levels of revenue per

<sup>4</sup> Throughout the whole of this report a region not specifically designated as a "city" is a *kabupaten*.

<sup>5</sup> Unless a figure is specifically stated to have a nominal value, all figures in this document are real values based on constant 2007 prices.

person there than the average of Rp 1.3 m/person for the 42 kabupatens and cities studied. The city of Padang Panjang's revenue per person was Rp 4.9 m; in West Sumbawa (population: 115 000) it was Rp 3 m/person. On Java, the cities of Blitar and Banjar—with populations of 132 000 and 175 000 respectively—achieved average revenue over Rp 1.5 m/person. By contrast, 14 of the 18 regions surveyed on Java had average revenue of less than Rp 1 m/person. On the bottom of that list were Malang and Garut—with revenue of just ±Rp 0.5 m/person. High population levels in the three kabupatens on Lombok—between 600 000 and 1.1 m—resulted in very low revenue numbers: ±Rp 0.7 m/person.

#### Graph 2.5 Average Revenue per Person, 2007-10, Based on Constant 2007 Prices

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

### 2.3 Analysis of Local Revenue Sources

**Central government fiscal transfers to regions (*dana perimbangan*) contributed most revenue in the kabupatens and cities studied; in second place came “other lawful own-source revenue” (LPDS) (Graph 2.6).** Cities were slightly less dependent on *dana perimbangan* than kabupatens: in 2007 they derived 81% of their revenue from such transfers; in 2010 the proportion was 73%; in kabupatens the level of dependency on *dana perimbangan* fluctuated between 83% and 86% during the period studied (2007-10). As for LPDS, in 2010 it contributed 14% of total revenue in 16 cities and 9% in 26 kabupatens studied—a slightly higher number than “local own-source revenue” (PAD) (13% in cities and 8% in kabupatens).

***Large cities and kabupatens with urban characteristics received relatively lower levels of dana perimbangan transfers and had higher levels of local own-source revenue (PAD).*** The cities of Surabaya and Semarang derived quite substantial amounts of their total revenue from PAD—30% and 20% respectively in 2009<sup>6</sup>. The extent of their dependency on *dana perimbangan*—54% for Surabaya and 65% for Semarang—was correspondingly less than that of other cities and kabupatens. But a kabupaten with urban characteristics like Sleman managed to draw on PAD for 16% of its total revenue.

#### Graph 2.6 Percentage of Revenue Kabupaten/City Revenue by Revenue Source, 2007-10

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and RAPBDs for 2010, processed by the LBS team

***Most of the 19 kabupatens and cities that received less than 80% of their 2009 revenue from central government fiscal balance transfers (*dana perimbangan*) derived sizeable amounts of revenue from other lawful own-source revenue (LPDS) (Graph 2.7).*** In all these kabupatens and cities more than 9% of total revenue—the kabupaten average in 2009—came from LPDS. North Gorontalo and the city of Palangka Raya had the highest level of LPDS revenue (reaching 17% of total revenue in 2009).

#### Graph 2.7 Proportion of Kabupaten/City Revenue by Source, 2009 (APBD-R)

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

<sup>6</sup> Of the four budgetary years studied (2007-10), 2009 was the last for which APBD-R figures were available. Data for the 2010 budgetary year could therefore only be drawn from APBD-Ms.

**Kabupatens outside Java were generally very dependent on dana perimbangan.** Almost all of the fourteen kabupatens/cities among the 42 studied that derived more than 85% of their revenue from *dana perimbangan* in 2009 were located outside Java (Graph 2.7). Among those, West Aceh, Dompu, Polewali Mandar, East Lombok and Serdang Bedagai collected limited local own-source revenue (PAD) (less than 5% of total revenue). Situbondo and Bojonegoro in East Java were exceptions: they derived 87% and 85% of their revenue respectively from *dana perimbangan* and just 6% and 8% respectively from PAD.

**The three provincial governments on Java derived most of their revenue from local own-source revenue (PAD), whereas the governments of South Sumatera and West Nusa Tenggara (NTB) relied heavily on dana perimbangan transfers.** Generally speaking, during 2007-10, PAD contributed between 67% and 74% of total revenue for the governments of West Java, Central Java and East Java; and *dana perimbangan* contributed just 25%-33%. Those proportions remained steady over the period studied. By contrast, although West Sumatera and NTB derived progressively more revenue from PAD during 2007-10, *dana perimbangan* transfers remained a more important revenue source for them. The government of South Sumatera derived 48% of its revenue from PAD in 2010 but just over 50% came from *dana perimbangan*. In NTB the degree of dependence was even greater: 60% came from *dana perimbangan* compared to 40% from PAD. Meanwhile LPDS contributed very little to provincial government revenue.

**Graph 2.8 Contributions of PAD and Regional fiscal transfers system Transfers to Revenue in 5 Provinces, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

## 2.4 Central Government Fiscal Transfers to Regions

**Central government fiscal balance transfers via the key elements of the *dana perimbangan* mechanism—the General Allocation Fund (DAU), the Special Allocation Fund (DAK) and the Revenue Sharing Fund (DBH)—were relatively stable during 2007-10.** The only evidence of a downward trend was in the case of DAK transfers to city areas in 2010. But that may have been because details of DAK funding for 2010 had not arrived in time for inclusion in APBD-Ms upon which this study was based. Average DAU transfers to surveyed kabupatens in 2007-10 amounted to 79% of total revenue, a little higher than in the cities (76%). By contrast, DBH transfers contributed an average of 17% in the cities, higher than in the kabupatens (only 11%).

**The rate of growth of General Allocation Fund (DAU) transfers slowed in the last three years studied.** Beginning in 2009 the government ceased applying the “hold harmless” principle to DAU<sup>7</sup> transfers. The result was quite significant declines in regional revenue from that source. On average, in the 24 kabupatens studied<sup>8</sup>, the nominal rate of increase of DAU transfers fell from 11% during 2007-08 to just  $\pm 2\%$  in the following two years. In real terms the growth rate was negative:  $-8\%$  in 2007-08 and  $-3\%$  in 2009-10. The cities suffered an even more drastic reduction: down, in nominal terms, from 8% in 2007-08 to  $-1\%$  in 2009-10—which translated into real growth rates of  $-7\%$  in 2009 and  $-4\%$  in 2010.

**Of the 42 kabupatens and cities studied, 13 experienced a decline in nominal value of DAU transfers during 2007-10.** The city of Banjar was the only place to experience a significant decrease in DAU transfers in 2008 (30% (nominal), 35% (real)), even though the city government at that time was still

<sup>7</sup> The “hold harmless” principle prevented the nominal DAU allocation for a particular year being less than that of the previous year.

<sup>8</sup> The kabupatens of North Gorontalo and West Lombok, formed after their parent kabupatens were split in two, are not included here.

assuming that annual DAU allocations would keep rising. 2009 witnessed falling DAU transfers in 6 kabupatens and cities—leaving aside West Lombok that had just been formed. The most significant falls in 2009 were in West Sumbawa (nominal – 4%, real – 12%) and in the city of Palembang (nominal – 4%, real – 13%). In 2010 the nominal value of DAU transfers fell in 10 kabupatens and cities, including Aceh Besar, Sleman and the city of Pekanbaru which had also experienced declines in the previous year. Three cities—Pekanbaru, Surabaya and Semarang—experienced the greatest declines, respectively 19%, 18% and 12% in real terms.

**Graph No. 2.10: The Value of DAU Funding in 15 Kabupatens and Cities with Declining DAU Allocations during 2007-10, Based on Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

**All three of the provincial governments surveyed on Java received increased General Allocation Fund (DAU) transfers in the last two years under study (Graph 2.11).** But in the first two years studied (2007-08)—when DAU transfers to the kabupatens and cities increased—DAU allocations fell as a proportion of provincial government revenue in West Java (by 3% nominal, 8% real) and East Java (6% nominal, 12% real). The corresponding number for the same period in Central Java was positive in nominal term but down by 6% in real terms. But in fiscal years 2009 and 2010 all three Java-based provincial governments received increased DAU transfers in nominal terms, though the high rate of inflation meant that, in real terms, growth in 2009 was still – 2% in Central Java and West Java and 0% in East Java.

**The two provinces outside Java each had a different experience with DAU transfers (Graph 2.11).** In West Nusa Tenggara they grew steadily (in nominal terms) over the four years studied, albeit more slowly in 2009 and 2010. But in South Sumatera's case DAU allocations grew by 7% (in nominal terms) in 2007-08 and 0% in 2009-2010. But, in real terms, both provinces experienced negative rates of growth in DAU allocations over the four year period as a whole.

**Graph 2.11 Nominal and Real Growth of DAU Funding in 5 Provinces, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

**In contrast to the DAU, levels of Special Allocation Fund (DAK) transfers fluctuated wildly.** The number of program areas targeted by the DAK grew from 12 in 2008 to 14 in 2009-10 and reached 19 in 2011 (Table 2.2). Growth in the value of DAK transfers to kabupatens and cities fluctuated wildly among regions (Graph 2.12). Thus, the difference between the highest and the lowest level of DAK transfers received by Sleman, Bojonegoro and the cities of Surabaya and Semarang during 2007-10 was greater than each area's average annual DAK allocation over the 4 year studied. Furthermore, in North Gorontalo and the city of Pekanbaru, the difference between the highest and lowest allocations received over the same period was twice as great as the average of those two figures.

**Graph 2.12 Maximum, Minimum and Average Value of Special Allocation Fund (DAK) Transfers, 2007-10 Based on Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

**Revenue Sharing Fund (DBH) transfers were an important source of revenue for some kabupatens and cities (Graph 2.13).** This was the case in North Aceh and the city of Pekanbaru, where DBH transfers contributed between 32% and 48% of local revenue during 2007-10. They also made a sizeable contribution (23% on average) in West Sumbawa and the city of Surabaya. In Bojonegoro and the cities

of Palembang and Semarang the DBH also furnished an average of 15% of total government revenue. It is noteworthy that these 7 regions are either large cities or areas endowed with natural resources. Outside those 7, the DBH's contribution to revenue was relatively small. Unlike the DAU, DBH allocations did not vary greatly from year to year.

**Graph 2.13 Maximum, Minimum and Average Proportion Contributed by DBH to Local Revenue 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**The provincial government of South Sumatera depended to quite an extent on funding from the Revenue Sharing Fund (DBH), whereas for the governments of West Java and East Java DBH contributed relatively little to local revenue.** Although the amount contributed by DBH to South Sumatera's provincial government coffers declined from 36% in 2007 to 26% in 2010, it remained an important and reliable revenue stream. It did, however, decline in monetary value in 2009. Meanwhile, in both West Java and East Java, DBH contributed just 13% and 11% respectively of total government revenue, even though the monetary value of the revenue each of these governments derived from DBH was virtually the same as South Sumatera's. It is also noteworthy that, while DBH contributed an average of 8% of total provincial government revenue in both Central Java and West Nusa Tenggara (NTB) during 2007-10, the monetary value of revenue derived from DBH by Central Java was more than 5 that received by NTB.

## **2.5 Other lawful Own-source Revenue (LPDS)**

**Other lawful own-source revenue (LPDS) was an important income stream in some areas, especially cities.** Graph 2.15 shows amounts of LPDS received and the size of LPDS's contribution to total local revenue in 10 kabupatens and cities during 2007-10. In seven cities—Surabaya, Semarang, Pekanbaru, Surakarta, Padang, Pontianak and Palangka Raya—LPDS tended to increase both in monetary value and as a percentage of total revenue, albeit at a lower level in some areas in 2010. This decline could have resulted from the fact that, for 2010, APBD-Ms were the only budget documents available for this study. A different pattern was evident in three kabupatens. In North Aceh LPDS declined significantly in 2009 and again in 2010. In West Sumbawa there was an upward trend over the last 3 years studied, especially 2010. Yet another pattern was evident in North Gorontalo: there, LPDS represented 98% of local income in 2007, but fell dramatically to just 14% in 2010.

**Graph No. 2.15 Total LPDS as a Percentage of Total Government Income, 2007-10, Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**In general, cities derived their other lawful own-source revenue (LPDS) from their shares of tax revenue collected by provincial or other local governments (a form of DBH at the sub-national level).** As Graph 2.16 shows, between 2008 and 2010, such revenue sharing was a major source of LPDS for the cities of Surabaya, Pekanbaru, Semarang, Pontianak and Surakarta. But at various times in some cities adjustment and special autonomy transfers contributed quite significantly to local revenue: This was the case in Pekanbaru, Pontianak and Surakarta in 2008, in Pontianak in 2009 and in Surakarta in 2010. The situation was rather different in Palangka Raya, where adjustment and special autonomy transfers increased between 2007 and 2009, but were not budgeted for at all in 2010. Padang's situation was different again: there, provincial tax revenue sharing contributed significantly to total revenue during 2007-09; but in 2010 its contribution was overshadowed by emergency funding—provided in response to

the 2009 earthquake. Such funding constituted almost half the city's LPDS in 2010 which, in monetary terms, was 3.4 times greater than 2009's LPDS.

**LPDS revenue fluctuated significantly in West Sumbawa, North Aceh and North Gorontalo, both in geographic terms and from year to year.** In West Sumbawa, the kabupaten's share of tax revenue collected by provincial or other local governments was the biggest single contributor to LPDS in 2008-09; but it was less significant in both 2007 and 2010 when grants took over as the main source of LPDS. Indeed, in 2010, West Sumbawa budgeted for 2.6 times more LPDS revenue than it had spent in the preceding year, possibly counting on grants from a large mining company operating in its territory. In North Aceh adjustment and special autonomy funds contributed 90% of LPDS in 2007-08. But, in 2009, not only did LPDS decline to just 18% of what it was previously; its composition was also different. In 2009-10 shared revenue from taxes collected by the province or other local governments constituted a high proportion (around 60%) of North Aceh's LPDS. In 2009 provincial/other local government fiscal support contributed 44% of North Aceh's LPDS, while grants contributed 37% in 2010. In the case of North Gorontalo, during its first two years of existence as a province, provincial/other local government fiscal support and grants took it in turns to be the biggest single contributor to LPDS; but they were both overtaken in 2009-10 by adjustment and special autonomy funding.

**Graph 2.16 Contribution of Various LPDS Components to LPDS Revenue in 10 Kabupatens/Cities, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team

**From the time it first appeared in 2008, infrastructure adjustment funding lacked criteria, did not require counterpart funding and was not well administered.** It stood in contrast to other fiscal transfer mechanisms that had specific parameters and legal status under Law No. 33/2004 on *Fiscal Balance between the Center and Regions*. For its part, adjustment funds—whose nomenclature changed constantly (see Table 2.1)—were authorized by Minister for Finance regulation and allocated, in terms of amounts and recipient areas, by the House of Representatives (DPR). By 2010 adjustment funding had become more diversified and was marked by untimely distribution, often not being received until around the time of the mid-year budget revision process. This delay caused problems: for example, not one single local government included adjustment funding in its APBD-M for 2010. Indeed, even in 2009, most regions made no reference to adjustment funding in either their approved budgets (APBD-Ms) or their mid-year revised budgets (APBD-Ps); but referred to it only in their end-of-year realized budget reports (APBD-Rs).

**Table 2.1 Various Types of Adjustment Funding and Their Legal Basis**

Adjustment fund	Minister of Finance Regulation (PMK)
Fund for Infrastructure and Public Facilities (DISP)	PMK 81/2008
Fund to Strengthen Fiscal Decentralization to Speed up Regional Development (DPD-FPPD)	PMK 42/2009
Fund to Strengthen Local Infrastructure and Public Facilities (DPIPD)	PMK 113/2010
Fund to Strengthen Fiscal Decentralization to Speed up Regional Development (DPDFPPD)	PMK 118/2010
Fund to Speed up Development of Educational Infrastructure (DPIP)	PMK 114/2010
Fund for the Strengthening of Local Infrastructure (DPID)	PMK 205/2011

Source: Put together by Seknas FITRA

**Adjustment funds were targeted at the same areas as the Special Allocation Fund (DAK).** In 2008, of the 12 sectors targeted by the DAK, five also received adjustment funding. By 2009, all 10 sectors targeted by adjustment funds also received DAK allocations (Table 2.2). The appearance of these adjustment funds was potentially a problem in regions already receiving significant levels of funding.



Not unnaturally, local governments preferred adjustment funds because they did not require local co-financing. But, because adjustment funds had no specific parameters, lacked selection criteria and took scant account of the national interest, local needs or fiscal equity, they risked being wrongly targeted.

**Table 2.2 Sectoral Funding: Comparison Between the DAK and adjustment Funds, 2008-11**

No	Sector	2008		2009		2010			2011	
		DAK	DISP	DAK	DPD - FPPD	DAK	DPIPD	DPDFPPD	DAK	DPID
1	Education	X	X	X	X	X			X	X
2	Health	X	X	X	X	X	X	X	X	X
3	Roads	X		X	X	X	X	X	X	X
4	Irrigation	X		X	X	X	X	X	X	X
5	Clean Water	X		X	X	X	X	X	X	X
6	Sanitation	X		X		X	X		X	X
7	Government	X	X	X	X	X	X		X	X
8	Marine and Fisheries	X		X	X	X			X	X
9	Agriculture	X	X	X	X	X			X	X
10	Environment	X	X	X		X			X	X
11	Family Planning	X		X		X			X	
12	Forestry	X		X		X			X	X
13	Village Infrastructure &			X		X			X	X
14	Trade		X	X	X	X			X	X
15	Transportation/ Communications and Ports				X		X		X	X
16	Regional Fiscal Information System						X			
17	Village Transportation								X	X
18	Housing Settlements								X	X
19	Village Electricity								X	X
20	National Borders Infrastructure and								X	

Source: Processed by Seknas FITRA

**Graph 2.17 DAK and infrastructure adjustment Funding by Kabupaten/City APBD-M 2010, Based on Current Prices**

*This graph is available only in the Indonesian text of this publication)*

Source: APBD-Ms for 2010 and various Minister of Finance regulations concerning Adjustment Funds, processed by the LBS team.

***In some areas, infrastructure adjustment funding in 2010 managed to exceed the value of DAK transfers, even though the basis on which it was distributed remains unclear.*** In 2010 Seven regions—Wajo, North Gorontalo and West Aceh, and the cities of Bandar Lampung, Palu, Palangka Raya and Padang Panjang—received more funding from adjustment transfers than from the DAK (Graph 2.17). In some cases—the cities of Gorontalo, Pontianak, Parepare and Pekanbaru—the amounts received via infrastructure adjustment funding were more than double those allocated to them by the DAK. Several kabupatens—Garut, Cilicap, Malang, Serdang Bedagai, Bondowoso and Boyolali—which had already received sizeable DAK transfers (more than Rp 55 billion at current prices) also received adjustment funding valued at between 20% and 65% of their DAK allocations. By contrast, several cities like Surakarta, Palembang, Pekalongan and Banjar experienced the double whammy of deriving only marginal benefit from the DAK and receiving negligible infrastructure adjustment funding.

## Local Own-Source Revenue (PAD)

***Provincial government own-source revenue (PAD) derived mainly from taxation; in cities it derived mainly from local fees and charges; and in kabupatens it came increasingly from other lawful PAD<sup>9</sup>.***

Tax receipts contributed around 85% of total provincial government PAD in the regions studied. West Java's provincial government had the highest level of tax-derived PAD—between 91% and 93% over the four years studied; West Nusa Tenggara's was somewhat less—between 72% and 84%. On average in 16 cities studied, fees and charges contributed more to PAD than taxation. But even so the amount tax revenue contributed to cities' PAD (37-39%) was far more than for kabupatens (just 21%-24%). On average, by 2010, the amount of revenue derived from other lawful PAD in 26 kabupatens surveyed was slightly more than that derived from local fees and charges. During the period studied (2007-10) taxation's contribution to kabupatens' PAD hovered between 21% and 24%.

***Provincial and kabupaten governments (but less so in the cities) received increasing amounts of local own-source revenue (PAD) from other lawful PAD and from management of locally funded government enterprises.*** Although these two revenue streams contributed a relatively small amount of overall provincial government PAD, their contribution grew over the 4 years studied: from just 8% of PAD in 2007 to 13% in 2010. The same sort of trend was evident in 26 kabupatens studied: their contribution grew from 36% of PAD in 2007 to 44% three years later. By contrast, city government PAD from these two sources declined in 2007-08 and rose again slightly in 2009-10.

### ***Graph 2.18 Growth Trends of Various Sources of PAD, 2007-10***

*(This graph is available only in the Indonesian text of this publication)*

***Only areas with urban characteristics were able to turn local taxes into a principal source of local own-source revenue (PAD).*** Almost all regions deriving more than 40% of PAD from taxation were cities or kabupatens with urban characteristics like Sleman. The kabupatens of West Lombok and Serdang Bedagai were exceptions here. The large number of hotels and restaurants in West Lombok's Senggigi district meant that it was able to collect a relatively large amount of tax. In the case of Serdang Bedagai, taxation's contribution to PAD was high only because total PAD itself was so low vis-à-vis other revenue sources—just Rp 17 billion or a mere 3% of total revenue for 2009. Furthermore, some small cities such as Gorontalo, Parepare, Blitar and Padang Panjang recorded very low levels of PAD from taxation (less than 20%).

***The kabupatens of Pekalongan, Garut and the city of Banjar all had high levels of revenue from fees and charges, 80% of which derived from health services.*** The city of Banjar received fees and charges amounting to Rp 14-17 billion (constant 2007 prices) or 66%-74% of its PAD during 2007-10. During that same period, Pekalongan netted Rp 24-35 billion worth of fees and charges (constant 2007 prices) or 58%-70% of PAD. Something similar occurred during 2007-09 in Garut, where fees and charges topped Rp 64-69 billion or 81%-83% of PAD. But in 2010 (in its APBD-M) Garut made provision for free health services, resulting in a fall in revenue from fees and charges to just Rp 11 billion (at constant 2007 prices), or 13% of its PAD.

***Other legal PAD (local own-source revenue) was a very significant source of PAD in North Aceh and West Sumbawa.*** In North Aceh, even though contributions by other legal PAD slid from Rp 85 billion (84% of total PAD) in 2007 to Rp 10 billion (33% of total PAD) in 2010 (based on APBD-M figures), it remained the kabupaten's single biggest contributor to PAD. More than 60% of revenue in question was generated by bank transfer receipts and interest payments. That showed that most of North Aceh's official funds were deposited with banks rather than being used to deliver public services and stimulate

<sup>9</sup> Revenue from other lawful local own-source revenue derives mainly from receipts from bank transfers, interest on deposits and income from Local Community Service Agencies (BLUD). In some areas base hospitals are classified as BLUDs.

the economy. This situation explains why, as is discussed in Chapter 4 of this report, North Aceh carried forward such large amounts of unspent funds (SiLPA) from one budget year to the next. Just the opposite occurred in West Sumbawa, where other lawful PAD increased during the four years under study: from Rp 5.5 billion (61% of PAD) in 2007 to Rp 22 billion (73% of PAD) in 2010 (based on APBD-M figures). West Sumbawa derived more than 70% of its other lawful PAD from “third party contributions”.

***Graph 2.19 Proportion Contributed to (Realized) PAD by Various Sources of PAD***

*(This graph is available only in the Indonesian text of this publication)*

*Source: Budget Outcomes for 2009, compiled by the LBS team.*

### 3. Analysis of Local Expenditure

#### 3.1 General Analysis of Expenditure

***In general, the rate of growth of budgetary expenditure in the areas studied exceeded the rate of growth of revenue (see Graph 3.1).*** The only exceptions were the 5 provincial governments during fiscal years 2008 and 2009: then, on average, expenditure's rate of growth fell slightly below that of revenue. As was the case with revenue, the rate of growth in expenditure declined significantly in real terms in 2008-09 in the 24 kabupaten<sup>10</sup>, 12 city and 5 provincial governments surveyed. Indeed, during that period, these regions' growth rates became negative numbers—ranging from -0.3% to -2.6%; but they rose sharply in the following year<sup>11</sup> especially in provincial governments (up 13%). Our analysis also shows that the rate of growth of expenditure was always higher in cities than in kabupatens.

**Graph 3.1 Growth of Expenditure and Income 2007-10, Based on Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

***Of all the areas studied, the city of Surabaya had the highest rate of growth in expenditure during 2007-10.*** Indeed, the city's spending (in constant 2007 prices) more than doubled from Rp 1.6 trillion in 2007 to Rp 3.6 trillion in 2010. While Surabaya spent less than its income in 2007 and 2008, its expenditure significantly exceeded income in both 2009 and 2010. This high rate of growth in expenditure was accompanied by a decline in the proportion of the budget spent (both directly and indirectly) on the civil service: down from 48% of total city expenditure in 2007 to 32% in 2010; and a fall in expenditure on goods & services from 33% in 2007 to 23% in 2010. By contrast, the city increased its capital expenditure over the four year period: from 16% in 2007 to 36-37% in 2009-10.

***At the provincial level, the government of West Java's average level of expenditure grew at a faster rate than that of the other four provinces over the four years under study.*** In real terms, West Java's expenditure grew at an average annual rate of 15% over the period. The opposite was happening on the revenue side of the ledger: in real terms West Java's income declined from 2008 onwards. West Java's increased expenditure was marked by a rise in spending (both direct and indirect) on civil service costs: up from 18% of total expenditure in 2007 to 20% in 2010. At the same time, expenditure on capital items and on goods & services also rose steadily from 21-22% in 2007-08 to 30% in 2010. The latter number (30%) was still lower than the average 2010 level of expenditure in those areas—between 30% and 42% of their entire APBDs—achieved by the other four provinces. Almost half of the government of West Java's expenditure consisted of transfers (revenue sharing and financial aid): far more than in the other four provincial governments that spent only 25% of their budgets on transfers.

***Government expenditure was a relatively significant contributor to growth of local kabupaten and city GDP, but not at the provincial government level.*** In the case of relatively small kabupatens and cities outside Java like Dompu and Polewali Mandar and the cities of Padang Panjang and Gorontalo, government expenditure during the four years studied (2007-10) added an average of more than 20% to local GDP levels obtaining in 2007. Blitar was the only city on Java in which expenditure contributed significantly (almost 30%) to local GDP. In Central Lombok also, where population far exceeds that of the kabupatens and cities just referred to, government expenditure amounted to 20% of local GDP. These numbers underline the importance of government expenditure for regional economic growth. By contrast, expenditure contributed minimally to local GDP of provincial governments studied: a mere 1% in Central Java, East Java and South Sumatera; and 3% in West Nusa Tenggara.

<sup>10</sup> The kabupatens of North Gorontalo and West Lombok, formed after their parent kabupatens were split in two, are not included here.

<sup>11</sup> 2010 budget figures are drawn from APBD-M projections, whereas for the other 3 years they are taken from APBD-Rs.

**Graph 3.2 Average Local Budget Expenditure (2007-10) as a Proportion of PRDB (2007), Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: Budget Outcomes for 2007-09 and Proposals for 2010 APBDs, produced by the LBS team

### 3.2 Analysis of the Components of Expenditure

**Expenditure on local civil services showed a consistently upward trend.** Indeed, such a trend combined with decreased capital expenditure, mirrored what was happening at the national level<sup>12</sup>. In the 26 kabupatens studied, average indirect (routine, administrative) expenditure (BTL) on civil services was as high as 55% of total budget resources in 2010. The percentage was higher still (60%) when direct (development-related) civil service expenditure (BL) is factored in. In the 16 cities under study the same trend was evident, albeit at a slightly lower level, with BL and BTL on local civil services consuming 56% of budgetary resources in 2010. Average civil service expenditure in kabupatens and cities under study was higher than the national average (47% in 2009 (end-of-year outcomes) and 51% in 2010 (planning projections)).

**This high level of civil service expenditure had implications for spending on capital items and goods & services which impact directly on local economic growth.** Average expenditure in these two areas declined significantly during the period studied: in the kabupatens from 39% of total budgets in 2007 to 28% in 2010; and in the cities, albeit from a slightly higher base, from 46% (2007) to 36% in 2010. These numbers were below the national average for similar expenditure by kabupatens and cities Indonesia-wide— 43% in 2009 (end-of-year outcomes) and 38% in 2010 (planning projections).

**Graph 3.3 Proportional Break-down of Expenditure for Kabupatens, Cities and Provinces 2007-10**

(This graph is available only in the Indonesian text of this publication)

**The situation was a little different in provincial governments studied: increases in civil service spending and declines in expenditure on capital items and on goods & services were not as great as in the kabupatens and cities surveyed.** Average provincial government civil service expenditure (direct and indirect) rose from 24%-25% between 2007 and 2009 to 28% in 2010. That was slightly above the national average—24% in 2009 (end-of-year outcomes) and 28% in 2010 (projections). Overall, the five provinces studied spent slightly less on civil service costs because of large amounts—27%-33% of their budgets during 2007-10—expended on transfers in the form of shared revenue and financial aid. Nor did provincial government spending on capital items and on goods & services decline as much as in the kabupatens and cities: the five provinces studied spent 38% of budgetary resources on those items in 2007, but only 34% in 2010. These numbers fell well short of the national average—47% in 2009 (end-of-year outcomes) and 38% in 2010 (planning projections).

**Graph 3.4 Proportion of DAU Funds Spent on Civil Service in 2007 and 2009**

(This graph is available only in the Indonesian text of this publication)

**On average, the 42 kabupatens and cities studied spent 95% of their General Allocation Fund (DAU) transfers in 2010 on civil service costs.** In 2007 indirect (routine, administrative) expenditure (BTL) on civil services accounted for 65% of DAU funding received, but such expenditure increased markedly over the next three years: to 76% in 2008, 85% in 2009 and 95% in 2010. Indeed, the level of civil service expenditure in 10 of the kabupatens and cities surveyed not only trended upwards during the period 2007-10, but actually exceeded DAU allocation levels in 2010 (Graph 3.4). Most of these regions were cities,

<sup>12</sup> National average figures for 2009 quoted in this report are taken from *Analisis Realisasi APBD 2009*, while those for 2010 come from *Deskripsi dan Analisis APBD 2010*. Both these documents are publications of the Directorate for the Local Government Funding and Financial Information within the Directorate-General for Fiscal Balance (DJPB), Indonesian Ministry of Finance.

areas with urban characteristics like Sleman or resource-rich areas such as North Aceh. Boyolali was in a class of its own.

### 3.3 Direct Per Capita Expenditure

**High levels of civil service expenditure led to a significant decline in the level of direct (development-related) expenditure (BL) per head of population.** In the 26 kabupatens studied, average BL per person (based on constant 2007 prices) declined by 16% from around Rp 5.1 m/person in 2007 to Rp 4.3 m/person in 2010. A slightly better number, albeit on the decline as well, was evident in the 16 cities under study: Rp 8.1 m/person in 2007 down to Rp 7.5 m/person in 2010—a decline of 8%. As Graph 3.5 shows, only three kabupatens (West Sumbawa, Wajo and the newly established North Gorontalo) had an increase in BL per person. The other 23 kabupatens registered declines. Cities performed relatively better: six of them—Padang Panjang, Parepare, Surabaya, Pontianak, Padang and Semarang—managed to achieve an increase in BL per capita. Overall, inhabitants of kabupatens and cities on Java had less spent directly on them per person than people living in the regions surveyed outside Java.

**Graph 3.5 Direct Per Capita Expenditure 2007 and 2010, Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007, APBD-Ms for 2010 and 2010 Population Census results, processed by the LBS team.

### 3.4 Expenditure on Social Aid and Grants

**Expenditure by kabupatens and cities on social aid (bansos) showed a downward trend, whereas spending on grants (hibah) increased.** Average expenditure on social aid (based on constant 2007 prices) in the 26 kabupatens and 16 cities studied declined by 31% and 47% respectively during 2007-10. As a proportion of total expenditure, kabupaten and city spending on social aid declined from 4% in 2007 to 2% in 2010. By contrast, expenditure on grants (hibah) rose dramatically. In 2007 kabupatens spent an average of just Rp 8 m (1% of average APBD spending) on grants, but by 2010 that amount had quadrupled to Rp 34 billion (5% of average APBD expenditure). But cities spent even more on grants: Rp 3 billion in 2007 and as much as 40 billion in 2010—a more than twelvefold increase. That amounted to 1% of their total budget spending in 2007 and 4% in 2010.

**Graph 3.6 Average Growth of Expenditure on Social aid and Grants by the 26 Kabupatens and 12 Cities Studied, 2007-10 (Based on Constant 2007 Prices)**

(This graph is available only in the Indonesian text of this publication)

**In most of the 18 kabupatens and cities which held “pilkada”—elections for local heads of government (HOGs)—in 2008, expenditure on social aid fell markedly in 2009 and 2010.** In the city of Pontianak, for example, budget allocations for social aid averaged Rp 33 billion in 2007 and 2008 (constant 2007 prices), but fell to just Rp 7 billion in both 2009 and 2010. Although not quite as dramatic, something similar happened in East Lombok, Bone and the cities of Padang Panjang and Parepare. Social aid expenditure in those four regions in 2009 hovered between 43% and 49% of levels attained in the election year (2008). That said, a number of kabupatens and cities—Garut, West Lombok, Bondowoso, North Gorontalo and the city of Banjar—continued to spend large amounts on social aid after their pilkada.

**Graph 3.7 Allocations for Expenditure on Social aid (2007-10) in 18 Kabupatens and Cities Which Held Pilkada in 2008, Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007, APBD-Ms for 2010 and 2010 Population Census results, processed by the LBS team.

***Although social aid expenditure did not increase in 17 local government areas holding pilkada in 2010, spending on grants did, and significantly (graph 3.8).*** Indeed, in some regions, spending on grants ballooned out in the year preceding 2010 pilkadas: Boyolali spent over 20 times more on grants in 2009 than it did in 2008; the city of Semarang's 2009 spending on grants was 6 times higher than the 2008 number; and the city of Surabaya spent 4 times more on grants in 2009 than in 2008. This increased level of spending persisted into the election year (2010). But it has to be acknowledged that grant allocations were partly used to cover costs of conducting elections. Thus three kabupatens holding elections in 2010—Dompus, Kendal and Serdang Bedagai—allocated nine or ten times more funding for grants in 2010 than in 2009.

**Graph 3.8 Allocations for Expenditure on Grants in 17 Kabupatens and Cities (2007-10) Which Held Pilkada in 2010, Based on Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007, APBD-Ms for 2010 and 2010 Population Census results, processed by the LBS team.*

***Although social aid spending by the five provincial governments trended downwards—as it did in the kabupatens and cities studied—their expenditure patterns on grants were somewhat different to other areas studies.*** Provincial government expenditure on social aid fell by 70% over the period studied: from Rp 317 billion in 2007 (8% of total expenditure) to just Rp 94 billion in 2010 (3% of total expenditure). But, bucking the trend in kabupatens and cities, provincial government spending on grants jumped almost 6 times between 2007 and 2008, but then fell again in 2009-10. In monetary terms, the fall was from Rp 413 billion in 2008 (9% of total expenditure) to Rp 199 billion in 2010 (3% of total expenditure). Such high levels of spending on grants in 2008 may have been due to gubernatorial elections held in that year.

## 4. Analysis of Planning, Financing and Fiscal Space

### 4.1 Budget Planning and Revision Processes

*In general, revenue planning processes in kabupatens and cities studied worked relatively well.* Overall, revenue targets were achieved as planned: realized income in end-of-year reports on budget outcomes (APBD-Rs) averaged between 104% and 105% of original budget (APBD-M) targets. The mid-year budget revision process producing revised budgets (APBD-Ps) also worked well, helping to bring more precision to revenue forecasts: APBD-R outcomes on revenue were between 99% and 101% of APBD-P targets. This situation came about mainly because regions could make fairly precise estimates of income to be derived from central government fiscal balance transfers (*dana perimbangan*). Indeed, APBD-R numbers on amounts of *dana perimbangan* received in the budget year just past were between 100% and 104% of APBD-M estimates and between 99% and 101% of APBD-P projections.

*That said, projections of revenue from other lawful local own-source revenue (LPDS) were still poor, especially at the budget planning stage.* Graph 4.1 shows that most areas were only able to set reasonably accurate targets for LPDS revenue during the mid-year budget revision process (APBD-Ps). But, despite that, end-of-year budget results (APBD-Rs) still recorded LPDS revenue numbers that were between 20% and 60% higher than APBD-P targets. As for the budget planning process, its underestimation of LPDS revenue grew worse over the period: in 2007 average APBD-R outcomes were 40% higher than APBD-M projections; by 2009 they were 90% higher than planning projections.

**Graph 4.1 Actual LPDS Revenue in APBD-Rs Compared to Projected Revenue in APBD-Ms and APBD-Ps**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Ms, APBD-Ps and APBD-Rs for 2007-09, processed by the LBS team.

*Although realized budget numbers for local own-source revenue (PAD) were, on average, close to original budget projections, quite a few regions had difficulty accurately estimating PAD revenue.* On average during the three budget years studied in this context, actual revenue (APBD-R) from PAD hovered between 107% and 109% of original budget projections (APBD-M). The mid-year budget revision process managed to bring estimated PAD revenue (in APBD-Ps) closer to budget outcomes (APBD-Rs), but budget year 2009 was an exception: in that year APBD-P targets were just 94% of APBD-R outcomes. In some regions end-of-year APBD-R outcomes bore little resemblance to original budgets estimates (in APBD-Ms), mostly because governments underestimated their capacity to collect PAD. Areas with poor PAD revenue planning processes ranged from Sleman, on one hand, which always underestimated its PAD revenue at less than 87% of what it achieved to Bone, on the other, which consistently overestimated its likely PAD revenue in both its APBD-Ms and APBD-Ps.

*While tending to underestimate revenue, the kabupatens and cities studied generally planned for excessively high levels of expenditure*—a tendency exacerbated by the mid-year budget revision process. Thus on average actual end-of-year expenditure (in APBD-Rs) in kabupatens and cities was lower than both originally projected targets (in APBD-Ms) and mid-year revised targets (in APBD-Ps). The result was that some allocated funds were unspent at the end of the fiscal year. Mid-year budget revision processes should have served to improve APBD-Ms by making them more achievable, but in fact they exacerbated the tendency to underspend by setting even higher revised expenditure targets. In fact, on average, expenditure targets set in original budgets (APBD-Ms) were relatively good, given that actual end-of-year expenditure was between 94% and 99% of original projections. By contrast, actual expenditure was only between 84% and 95% of mid-year revised targets (in APBD-Ps).



***This tendency to underspend, made worse by the mid-year budget revision process, was particularly apparent in expenditure on goods & services. But it was also evident in civil service spending (graph 4.2).*** Actual expenditure by kabupatens on goods & services was almost identical with planned expenditure: on average, end-of-year outcomes (in APBD-Rs) were between 97% and 100% of original budget targets (in APBD-M). But overambitious budget revision processes led many kabupatens to end up spending less than 90% of revised budget (APBD-P) targets. A similar pattern was evident in cities studied: on average, actual expenditure on goods & services was between 92% and 96% of original budget projections (in APBD-Ms); and only between 86% and 88% of mid-year revised targets (in APBD-Ps). Civil service spending was closer to what was targeted: on average, in 2007, 92% of revised expenditure targets were spent; by 2009 the proportion had risen to 95%. The fact remains, however, that if local governments had not revised their budgets mid-year, their end-of-year expenditure numbers would have been much better.

**Graph 4.2 Actual Expenditure on Goods & services Compared to Projected Expenditure in APBD-Ms and APBD-Ps**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Ms, APBD-Ps and APBD-Rs for 2007-09, processed by the LBS team.*

***Like expenditure on goods & services, expenditure on capital items was adversely affected by budget revision processes (graph 4.3).*** Actual capital expenditure by kabupatens and cities studied was, on average, more than 90% of original budget projections (in APBD-Ms) throughout the three years studied (2007-09). Kabupatens performed slightly better than cities, though their spending also trended downwards. More ambitious expenditure targets incorporated into mid-year revised budgets (APBD-Ps) impacted more severely on capital expenditure than on goods & services: on average, actual expenditure on capital items between 2007 and 2009 in the cities surveyed did not once rise above 85% of mid-year revised targets (in APBD-Ps). Kabupaten spending was slightly higher: on average their actual expenditure (in APBD-Rs) rose from 85% of mid-year revised targets (in APBD-Ps) in 2007 to 91% in 2009.

**Graph 4.3 Actual Expenditure on Capital Items Compared to Projected Expenditure in APBD-Ms and APBD-Ps**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Ms, APBD-Ps and APBD-Rs for 2007-09, processed by the LBS team.*

## **4.2 Budget Surpluses**

***Planning figures suggest that budget surpluses resulted more from under expenditure than from unexpected “success” on the revenue side (graph 4.4).*** On average, budget income recorded in end-of-year reports (APBD-Rs) showed that the kabupatens and cities studied achieved between 104% and 105% of original revenue targets (in APBD-Ms) and between 99% and 101% of revised targets in mid-year APBD-Ps. This amounts to clear evidence of underestimating budget income. By comparison, increasingly higher levels of spending were incorporated in both original budgets (APBD-Ms) and revised budgets (ABPD-P) over the period studied: on average, realized kabupaten/city budget expenditure in 2007 represented 95% of APBD-M spending targets, but only 88% of mid-year revised budget (APBD-P) targets; corresponding numbers for 2009 were 98% and 92%. This data shows that kabupatens and cities tended to set themselves excessively high spending targets, particularly in mid-year revised budgets. Given that shortfalls in realized expenditure were greater than the amounts by which revenue was underestimated, it seems that budget surpluses resulted mainly from under expenditure.

**Graph 4.4 Comparison of Budget Outcomes (APBD-R) with Draft (APBD-M) and Revised (APBD-P) Budget Targets and Resulting Budget Surpluses (SiLPA), 2007-09**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Ms, APBD-Ps and APBD-Rs for 2007-09, processed by the LBS team.

**The extent to which budget surpluses (termed SiLPA in Indonesian) were used to fund the next year's budgets trended downwards during the period under study.** On average, in 2008, the 42 kabupaten and cities under study used SiLPA carried forward from 2007 to finance 14% of budget expenditure. That was a significant contribution: after all, local own-source revenue (PAD) funded only 10% of spending that year (2008). However, the amount of SiLPA declined steadily after 2008, contributing just 6% of budget financing in 2010, by which time PAD's contribution had risen to 11%.

**Of the 42 kabupatens and cities studied, North Aceh and Wajo kabupatens and the cities of Surabaya, Padang Panjang and Semarang used more SiLPA than other areas to fund their budgets.** Of these five regions North Aceh had the most substantial surpluses: indeed, in 2007 SiLPA carried forward from 2006 was greater than the entire 2007 budget; in 2008 SiLPA declined somewhat but was still able to finance 91% of North Aceh's budget. This situation came about from a combination of factors: on one hand, high levels of revenue in 2007 (almost 150% more than originally budgeted for) and, on the other, low levels of expenditure (just 75% of original APBD-M projections and 62% of revised APBD-P targets). Among the three cities mentioned above, Surabaya had the highest proportion of its budgets funded by SiLPA over the period studied: the high point was in 2008, when 64% of the city's budget was funded by SiLPA from 2007. Like North Aceh, Surabaya's large budget surpluses resulted from under-estimates on the revenue side—actual revenue was 10% above both original APBD-M projections and revised APBD-P targets—and lower than expected expenditure—just 77% of original APBD-M projections and 62% of revised APBD-P targets. That said, the extent to which North Aceh, Surabaya and other regions financed their budgets with SiLPA trended downwards through to 2010.

**Graph 4.5 Average Contribution of SiLPA from Previous Year to Financing of Expenditure by Kabupatens and Cities 2007-09**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Ms, APBD-Ps and APBD-Rs for 2007-09, processed by the LBS team.

**Among the 42 regions studied, the kabupatens of Sidenreng Rappang, Polewali Mandar and East Lombok and the cities of Palu and Gorontalo used SiLPA least to finance budget expenditure.** Each of these five regions—with the sole exception of Gorontalo in 2008—consistently financed less than 5% of their budgets with SiLPA. Polewali Mandar and East Lombok achieved this outcome with good budgetary planning: between 2007-09 the former collected 97%-101% of revenue targets—in both APBD-Ms and APBD-Ps—and spent 94%-101% of both its original and revised expenditure targets; the corresponding numbers for East Lombok were 97%-101% (revenue collected) and 95%-96% (expenditure achieved). By contrast, the low level of SiLPA in Sidenreng Rappang did not result from effective budgeting but rather from failure to achieve both revenue and expenditure targets: during 2007-09 the kabupaten collected only between 83% and 97% of projected revenue (at times when other kabupatens and cities were exceeding targets) and only expended between 83% and 88% of targeted expenditure.

**In the case of the five provincial governments studied, the proportion of expenditure financed by SiLPA was quite substantial and tended to rise over the period studied.** Thus the government of West Java's SiLPA contributed a "mere" 13% to budget financing in 2007, but reached 30% by 2009. A similar, less pronounced, increase occurred in East Java: rising from 16% in 2007 to 27% in 2009. In 2010 both these governments budgeted for lower levels of SiLPA—19% in West Java, 6% in East Java—but these were planning figures only (the results of which were not available for this study). These large budget surpluses resulted from underestimation of revenue at both the budget planning and budget revision stages: West Java's budget income during 2007-09 was between 19% and 28% higher than original APBD-M and revised APBD-P targets; and in East Java it exceeded targets by between 16% and

38%. Both these provinces did relatively well on the expenditure side during 2007-09: they were generally within 10% of APBD-M and APBD-P spending targets.

***The government of West Nusa Tenggara (NTB) managed to keep its SiLPA at less than 8% for the four years studied.*** In 2007 NTB's realized budget income was a mere  $\pm 1\%$  above or below APBD-M and APBD-P targets; and its expenditure was 96% of original APBD-M projections and 92% of revised APBD-P targets. Thus only 7% of expenditure in 2008 was financed by SiLPA from 2007. The provincial government maintained this relatively good record on revenue/expenditure levels in the following years, making SiLPA a minor source of budget financing.

### 4.3 Analysis of Fiscal Space

***In real terms, fiscal discretion or fiscal space<sup>13</sup> of provincial, kabupaten and city governments declined during the period studied.*** Although provinces' fiscal space expanded, in nominal terms, by 5% in 2009 and 2% in 2010, it actually shrank in real terms: by 5% in 2009 and 3% in 2010. The situation was even worse for kabupaten/city governments: their fiscal space contracted constantly over the period—albeit less in cities than in kabupatens—declining in cities by 9% in 2008 and a further 13% in 2009; and in kabupatens by 13% in 2008 and a further 15% in 2009. The downward trend continued in 2010 at a slightly slower pace in the cities (down 9%) but more steeply in the kabupatens (down 18%).

***Kabupatens and cities with large populations generally had more fiscal space than other areas studied (graph 4.8).*** The city of Surabaya had substantial funding available for discretionary spending: almost Rp 2.2 trillion in 2009 (based on current prices). Kabupatens or cities with discretionary funds in excess of Rp 250 billion invariably had populations above 900 000 people. By contrast, kabupatens or cities with small populations had limited fiscal space. The exception was West Lombok. In 2009 it had only Rp 96 billion worth of fiscal space, despite its population of just 800 000.

***Funds available to governments studied for discretionary spending varied enormously, from as little as 8% to as much as 67% of total revenue.*** In the cities of Pekalongan and Banjar and the kabupatens of North Gorontalo and Padang Panjang fiscal space represented a substantial proportion of total revenue (more than 42%), but the amounts of money involved were not large. By contrast, in the city of Surabaya fiscal space was large both in monetary value and as a proportion of total revenue (68%). It ranked ahead of all other regions studied on both those counts, followed in second place by the city of Pekanbaru.

#### Graph 4.8 Kabupatens' and Cities' Fiscal Space in 2009 as a Proportion of Total Revenue

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2009, processed by the LBS team.

***Among the 5 provincial governments studied, East Java and West Java outperformed the other three in terms of fiscal space both in monetary terms and as a proportion of total revenue.*** In 2009 these two most densely populated provinces had fiscal space at the provincial government level, valued at Rp 6.7 trillion—86%-87% of total revenue (at constant 2007 prices). The governments of South Sumatera and Central Java had almost identical proportions of fiscal space: but South Sumatera's amounted to 41% less money than Central Java's. West Nusa Tenggara had limited fiscal space: just Rp 815 billion (69% of total revenue).

<sup>13</sup> Fiscal space refers to the amount of funding (not part of earmarked expenditure programs) which is available to a government for spending at its own discretion. Fiscal space is total revenue minus special purpose funding—DAK, grants, emergency funding, adjustment funding and special autonomy funding – and non-discretionary expenditure (civil service costs and payment of interest on loans).

## 5. Analysis of Local Infrastructure Budgets

Government has a very important role to play in the development of infrastructure; that in turn stimulates economic development and creates jobs for local people, thereby helping to reduce poverty. Good infrastructure also encourages the involvement and growth of private enterprise. Accordingly, this study looked not only at overall infrastructure expenditure but took a particularly close look at spending on roads, bridges, irrigation and provision of clean water. Roads and bridges are especially important for development of local economies; they also have a huge impact on the accessibility of education and health services. And, of course, the supply of clean water is critical for improved public health standards.

This chapter examines expenditure of various public agencies —different from region to region—that are involved in infrastructure development. In some areas, public works departments were responsible for roads, bridges, irrigation and the provision of clean water. In others, responsibility was shared variously between authorities responsible for roads and bridges, specific offices responsible for irrigation and water resources and town planning bodies which looked after provision of clean water in urban areas.

### 5.1 Expenditure on Public Works

***Expenditure on infrastructure<sup>14</sup> by kabupaten and city governments<sup>15</sup> was relatively low, but was quite high in the case of provincial governments.*** As a proportion of overall local budget expenditure, average spending on infrastructure by kabupatens hovered around 12-13% of overall spending for the four years studied (2007-10). Average expenditure in cities was slightly higher especially in 2009-10 when it reached 15-17% of total spending. In the four provinces<sup>16</sup> studied, average expenditure on infrastructure (18% of all expenditure in 2007) was higher than in kabupatens and cities, jumping sharply to 23% of total spending in 2008 but declining in the following two years to 19% in 2010.

**Graph 5.1 Average Expenditure on Public Works as a Percentage of Overall Expenditure of Kabupatens, Cities and Provinces, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

***The 40 kabupatens and cities<sup>17</sup> studied for this part of our research spent between 5% and 25% of their total budgets on infrastructure.*** Using average expenditure between 2007 and 2010 as a basis for comparison, the city of Surakarta and the kabupatens of East Lombok, Garut and Sumedang consistently spent an average of just 5% or 6% of their total budget on infrastructure. In contrast, the city of Surabaya and the kabupatens of Sidenreng Rappang, Wajo and North Aceh all spent an average of 24-25%. But there were significant variations within this last mentioned group: in 2008 Wajo spent just 12% of its budget on infrastructure but planned to spend 47% in 2010; Surabaya too spent only 12% of its 2008 budget on infrastructure but increased its spending to 37% and 38% in 2009-10

**Graph 5.2 Average Expenditure on Public Works as a Proportion of Total Kabupaten/City Expenditure, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

<sup>14</sup> If a particular area has more than one local office responsible for the three types of infrastructure being studied, the expenditure of those various offices is aggregated for purposes of comparison with other areas.

<sup>15</sup> This estimation is an average for the 20 kabupatens and 11 cities that had full sets of figures for infrastructure spending for the four years under study. The following are not included: the kabupatens of North Aceh, Bojonegoro, Dompu, Garut, North Gorontalo and West Sumbawa and the cities of Bandar Lampung, Banjar, Gorontalo, Palangka Raya and Surakarta.

<sup>16</sup> West Java is not included, as data for 2007 was not available.

<sup>17</sup> The Kabupaten of West Sumbawa and the city of Palangka Raya are not included in this part of the analysis because researches were unable to obtain information on infrastructure spending for the 4 years studied.

**As for provincial governments, average expenditure on infrastructure was greater in South Sumatera and Central Java than in the other three provinces.** Over the four years studied, these two provinces spent an average of between 27% and 29% of their budgets on infrastructure but in each case actual annual expenditure exceeded 30% in certain years (South Sumatera in 2007 and 2010 and Central Java in 2008 and 2009). By comparison, expenditure on infrastructure in the other three provinces tended to be on the low side. West Nusa Tenggara spent a steady 16% or 17% of its annual budgets on infrastructure. West Java was the only provincial government to consistently increase its infrastructure spending: up from 10% of its total budget in 2008 to 15% in 2010.

**Graph 5.2 Average Expenditure on Public Works as a Proportion of Total Provincial Expenditure, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**Expenditure on infrastructure by 23 kabupatens and cities during the 4 years studied remained steady as a proportion of overall expenditure, but its monetary value trended downwards.** Their average spending on infrastructure was Rp 81 billion in 2007 (constant 2007 prices), but fell during the next 3 years to Rp 64 billion in 2010. Expenditure in the kabupatens of Semarang and West Aceh and the city of Palu fell most sharply: funding in 2010 was between 26% and 27% of 2007 allocations.

**Graph 5.4 Expenditure on Public Works by Kabupaten/City, 2007-10, Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**Nevertheless, some areas achieved very marked increases in infrastructure expenditure.** Thus in 2010 the city of Pekalongan and the kabupaten of Serdang Bedagai appropriated between 62% and 64% more funding for infrastructure than they had in 2007. The city of Parepare also consistently increased infrastructure spending during the period: up from Rp 45 billion in 2007 to Rp 77 billion in 2010 (constant 2007 prices). Expenditure also rose sharply in Wajo: up from Rp 69 billion in 2007 and 2008 to Rp 95 billion in 2009 and Rp 197 billion in 2010.

**On a proportional basis, infrastructure spending of the five provincial governments studied followed a fairly similar pattern: an increase in 2008 followed by declines in 2009 and 2010 (graph 5.5).** The government of West Java was something of an exception: it increased its appropriations each year between 2008 and 2010—with its 2010 appropriations amounting to 89% more than those of 2008. Central Java also managed to achieve a small overall increase, in real terms: its 2010 appropriations were 14% more than those of 2007. But, even so, Central Java's level of infrastructure funding declined in 2009-10 after reaching a high point in 2008. Meanwhile, in South Sumatera and East Java, infrastructure funding fluctuated (without major jumps or falls) and in West Nusa Tenggara funding levels were steady.

**Graph 5.5 Expenditure on Public Works by Province, 2007-10, Based on Constant 2007 Prices**

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

Note: Data on infrastructure expenditure in 2007 was not available in the case of West Java.

## **5.2 Direct and Indirect Expenditure on Public Works**

**Most expenditure on infrastructure took the form of direct (development-related) expenditure (BL), but BL's share of the expenditure cake declined over the four years studied (graph 5.6).** BL was at its highest in 9 cities studied<sup>18</sup>: it reached 95% of total infrastructure spending in 2007 and, although

<sup>18</sup> The cities of Bandar Lampung, Banjar, Blitar, Gorontalo, Palangka Raya, Surabaya and Surakarta are not included in this part of the analysis because the unavailability of complete data for the four years studied.

declining slightly, remained at 90% in 2010. There was a more pronounced slide in BL in the 19 kabupatens studied<sup>19</sup>: from 91% of total infrastructure spending in 2007 to just 77% in 2010. On average, the four provincial governments—West Java in not included here—had lower levels of BL but they did not decline much between 2007 and 2010.

**Graph 5.6 Average Direct Expenditure as a Proportion of Overall Infrastructure Expenditure in Kabupatens, Cities and Provinces 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

***Direct (development-related) expenditure (BL) on infrastructure in the four kabupatens surveyed in West Nusa Tenggara was the lowest among 40 kabupatens and cities studied<sup>20</sup>.*** BL constituted less than 80% of infrastructure spending in Lombok, Dompu, Central Lombok and East Lombok. The proportion of BL fluctuated quite markedly in West Lombok, Dompu and East Lombok: in West Lombok from 88% in 2007 down to 52% in 2010; and in Dompu and Central Lombok from between 86% and 87% in 2007 to between 58% and 59% in 2010. But of all regions studied the kabupaten of Pekalongan spent the lowest proportion of its infrastructure budget as BL (just 47% in 2010).

**Graph 5.7 Average Direct Expenditure as a Proportion of Total public Works Expenditure in Kabupatens and Cities, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

***The cities Surabaya, Palembang, Pekanbaru, Parepare and Pontianak consistently spent over 95% of their infrastructure budget as direct expenditure (BL) during the four years studied.*** All these cities, except for Palembang, spent an average of just over 13% of their total budgets on infrastructure. Likewise, the kabupatens of North Gorontalo, Wajo and Bojonegoro had sizeable infrastructure budgets a high proportion of which was spent as BL.

***The provincial governments of South Sumatera and West Java consistently spent in excess of 90% of their annual infrastructure budgets as direct expenditure (BL) over the four years studied—more than the other three provinces could manage.*** East Java and Central Java spent the lowest proportions of their infrastructure budgets as BL—just 73% in each case. West Nusa Tenggara's BL on infrastructure trended downwards from 85% of infrastructure funding in 2007 to between 76% and 78% in 2009 and 2010.

**Graph 5.8 Average Direct Expenditure as a Proportion of Total Public Works Expenditure in the Provinces, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

***In 2009 infrastructure adjustment funding contributed a considerable amount to direct expenditure (BL) on infrastructure in the kabupatens of Sleman, Bondowoso and Serdang Bedagai and the cities of Palu, Semarang and Pontianak.*** Right from the time it was first introduced in 2008, adjustment funding has been playing an increasingly important role in regions, as is evident from the contribution it made to BL on infrastructure in Sleman and Bondowoso. No less than 44% of Bondowoso's BL on infrastructure

<sup>19</sup> The kabupatens of North Aceh, Bojonegoro, Bondowoso, Dompu, Garut, North Gorontalo and West Sumbawa are not included here because of the unavailability of complete data for the four years studied.

<sup>20</sup> Data was not available for the cities of Palangka Raya and West Sumbawa.

on roads, bridges and irrigation in the period studied was funded by the Fund for Stronger Fiscal Decentralization and Accelerated Development (DPDFPPD)—Bondowoso did not receive adjustment funding for clean water resources. 26% of Sleman's BL on infrastructure was similarly funded. The other 4 regions referred to above also financed between 18 and 22% of their BL on infrastructure with DPDFPPD funds. But this source of funding carried risks, because it lacked specific parameters and was distributed in a way that could not be relied upon.

***In 2009 West Lombok, Sleman, Aceh Besar and Bondowoso financed more than half of their direct spending (BL) on infrastructure with Special Allocation Fund (DAK) or DPDFPPD adjustment transfers.*** While Sleman and Bondowoso received sizeable amounts of DPDFPPD funding in 2009, West Lombok received no adjustment funding at all in that year. Nevertheless, West Lombok did receive substantial levels of DAK funding. In fact it topped the list of 32 kabupatens and cities—for which data was available for this comparison—for funding BL on infrastructure with regional fiscal balance transfers (*dana perimbangan*) or infrastructure adjustment grants (graph 5.9). In Aceh Besar, BL on infrastructure was funded by both adjustment funding (10%) and DAK transfers (42%). But in both these regions BL on infrastructure, in monetary terms, was quite low: just Rp 18.3 billion in West Lombok and Rp 35.9 billion in Aceh Besar. By comparison, average BL on infrastructure across the 32 regions studied was Rp 122.1 billion per region (at constant 2009 prices).

**Graph 5.9 Proportion of Total Public Works Expenditure in Kabupatens/Cities Funded by DAK and Adjustment Funding, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09, APBD-Ms for 2010 and DAK/DPDFPPD disbursements, processed by the LBS team.

### 5.3 Expenditure on Roads and Bridges

***Of all the programs implemented by public works departments (or other local agencies responsible for infrastructure) roads and bridges<sup>21</sup> absorbed most of the direct expenditure (BL) on infrastructure in kabupatens and cities studied.*** Taking the average of the 33 kabupatens and cities for which data was available, 49% of all BL on infrastructure was spent on roads and bridges. In fact, North Gorontalo and Sleman spent more than 70% of their infrastructure BL on roads and bridges. The corresponding figure in the kabupatens of Semarang, Kendal, Sidenreng Rappang and Situbondo and the cities of Blitar and Banjar was 40%.

**Graph 5.10 Average Proportion of Total Direct Public Works Expenditure Spent on Roads and Bridges in Kabupatens and Cities, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

***At the provincial government level, the average proportion of BL spent on roads and bridges trended downwards.*** In 2007 that proportion was 60% but fell to 47% in 2009. West Nusa Tenggara was the only provincial government where the proportion of BL on roads and bridges rose: it reached 51% in 2009. By contrast it fell quite sharply in East Java (in 2009) and Central Java (during 2008-09).

<sup>21</sup> The roads and bridges programs included in this analysis are for the most part: the Roads and Bridges Development Program, the Roads and Bridges Rehabilitation/Maintenance Program, the Roads and Bridges Emergency Response Program and the roads and bridges portion of the Village Infrastructure Development Program.

**Graph 5.11 Average Proportion of Direct Provincial Government Public Works Expenditure on Roads and Bridges, 2007-09**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

Note: data for West Java could not be accessed.

**Graph 5.12 Average Expenditure per km on Roads and Bridges in the Kabupatens and Cities, 2007-10, Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09, APBD-Ms for 2010 and the BPS's "Kabupatens/Cities in Figures", processed by the LBS team.

***The level of expenditure per km on roads and bridges varied enormously among the kabupatens and cities under study, but theoretically Wajo was the only area in a position to rehabilitate any of its existing roads.*** In some areas with relatively few roads (below 600 km in total length)—such as Wajo, Bojonegoro and the city of Pontianak—average annual expenditure on roads and bridges exceeded Rp 150 million/km. In fact Wajo spent an average of Rp 274m/km/year. But the bulk of the regions studied allocated very low levels of funding for roads and bridges: on average, below Rp 50 million/km/year. For example, East Lombok spent only Rp 11-12 billion (constant 2007 prices) on its 2 841 km of roads and bridges over the 4 years studied—just Rp 5m/km/year. Still in West Nusa Tenggara, West Lombok's budget for roads and bridges declined from Rp 19 billion in 2007 to just Rp 4 billion in 2010. Although it only had 655 km of roads, West Lombok's small budget meant that it had only Rp 15m/km/year to spend on roads and bridges. On the basis of Ministry of Public Works estimates of funding required per km of road maintenance—Rp 1 billion/km every 3 to 5 years or Rp 200-333m/km/year—it emerges that, theoretically, Wajo was the only region studied that had sufficient funds to maintain its existing roads. It is, therefore, something of a vain hope to expect that kabupatens or cities can maintain the quality of their existing roads, let alone build new ones.

***The provincial government of South Sumatera allocated more funding per km for roads and bridges than any of the other three provincial governments studied.*** With 3 039 km of roads under its charge, the government of South Sumatera had a relatively substantial budget for roads and bridges. It was therefore able to allocate Rp 139m/km/year. This amount was far more than West Nusa Tenggara could manage: on average, just Rp 28m/km/year over the period studied. Meanwhile, the two provincial governments on Java for which data was available were pretty much on a par: East Java spent Rp 72m/km/year and Central Java Rp 82m/km/year.

**Graph 5.13 Average Expenditure per km on Roads and Bridges in the Provinces, 2007-10, Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09, APBD-Ms for 2010 and the BPS's "Kabupaten/City in Figures", processed by the LBS team.

**Graph 5.14 Proportion Contributed by DAK and Adjustment Funding to Expenditure on Roads and Bridges in Kabupatens and Cities, 2009**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2009 and Minister of Finance regulations on adjustment funding, processed by the LBS team.

***In the case of 8 of the cities and kabupatens studied, more than 50% of funding for roads and bridges derived from Special Allocation Fund (DAK) transfers or adjustment funding.*** In 2009, the kabupatens of West Lombok, Pekalongan and East Lombok, and the cities of Pekalongan and Surakarta got 60% of their entire funding for roads and bridges from DAK transfers; but none of them received a single rupiah



from infrastructure adjustment programs. By contrast, in the cities of Semarang and Pontianak, adjustment funding (DPDFPPD for roads and bridges) contributed 52% and 39% respectively of total budgets for roads and bridges in 2009. Adjustment funding also made an important contribution (17%) to Aceh Besar's budget for roads and bridges.

## 5.4 Expenditure on Irrigation Programs

***Although irrigation is very important for agriculture—an important source of income in most village areas—the sector attracted relatively low levels of funding.*** Our research showed that of the 32 areas for which data was available, only four kabupatens—Sumedang, Serdang Bedagai, Cilicap and East Lombok—and one city (Blitar) allocated more than 20% of their direct expenditure (BL) on infrastructure to irrigation programs. By contrast, Bojonegoro only allocated just 1% of its infrastructure BL budget of Rp 155 billion (current 2009 prices) to support irrigation projects. North Gorontalo was another kabupaten which spent less than 4% of its infrastructure BL on irrigation programs.

### **Graph 5.15 Average Proportion of Direct Public Works Expenditure Spent on Irrigation Programs in the Kabupatens and Cities, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

### **Graph 5.16 Average Proportion of Direct Public Works Expenditure Spent on Irrigation Programs in the Provinces, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

***Although provincial governments have considerable responsibility in the irrigation sub-sector, the four provinces studied—except for West Nusa Tenggara (NTB)—spent only modest amounts on irrigation.*** NTB's provincial government increased its expenditure on irrigation very significantly in 2008 and again in 2009 to 30% of its infrastructure BL budget (graph 5.15). The governments of East Java and West Sumatera also increased spending on irrigation in 2009, but in both cases it remained below 15% of total BL on public works. Central Java spent least on irrigation: just 2% of its infrastructure BL over the 3 years studied.

## 5.5 Expenditure on Clean Water

***Expenditure on clean water programs was lower than in the other two sub-sectors studied.*** Even though the provision of clean water is very important for public health and community welfare, 30 cities and kabupatens studied spent an average of just 6% of their public works direct (development-related) expenditure (BL) on water projects. Two of three kabupatens surveyed on the island of Lombok (West Nusa Tenggara province)—West Lombok and East Lombok—allocated quite significant amounts (over 14% of their public works BL to water projects. The corresponding figure for the other kabupaten on Lombok (Central Lombok) was just 5%. Given that several health indicators classify NTB as one of the unhealthiest areas in Indonesia, West and East Lombok's approach to water projects was headed in the right direction. The cities of Blitar and Pekalongan and the kabupaten of Polewali Mandar also spent over 10% of their public works BL on clean water projects. But in several cities and kabupatens expenditure on such projects fell below 3%.

**Graph 5.17 Average Proportion of Direct Public Works Expenditure Spent on Clean Water Programs in the Kabupatens and Cities, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

***Even though, in reality, city and kabupaten governments are responsible for the provision of clean water, South Sumatera's provincial government appropriated quite considerable funding for fresh water programs: in 2009 as much as 6% of its direct public works expenditure.*** The governments of West Nusa Tenggara and East Java also spent quite substantial amounts on clean water programs—3-4% of their BL on infrastructure in 2009. But, in the same year, East Java allocated just 1% of its BL on public works to such programs.

**Graph 5.18 Average Proportion of Direct Public Works Expenditure Spent on Clean Water Programs in the Provinces, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

## 6. Analysis of Education Budgets

Education is the only sector for which the level of budgetary funding—20% of all national, provincial, kabupaten and city budgets—is mandated by the Indonesian constitution. That mandate underlines the importance of education for achievement of our goals as a nation. It also underscores the importance of education as a driving force behind economic development: not only statistical economic progress—improved local GNP numbers—but also true social development measured against Indonesia's Millennium Development Goals (MDGs). At the micro level, education can also be relied upon to help communities lift income levels and improve quality of life—enabling them to defeat poverty.

### 6.1 General Analysis of Expenditure of Education Departments

***Overall, kabupaten and city governments more than met their obligation to devote 20% of their budgets to education. But, in the four provincial governments studied, less than 8% of budgetary resources were spent on education.*** On average, 20 kabupatens<sup>22</sup> and 9 cities<sup>23</sup> surveyed spent very similar proportions of their budgets on education (graph 6.1). Their average spending rose slightly from 33% of total budgets in all regions in 2007 to 36% (in cities) and 38% (in kabupatens) in 2010. By contrast, provincial governments only spent an average of between 4% and 7% of their budgets on education during that period. This situation was very much as it should have been, bearing in the mind the limited role provinces play in the education sector, compared to kabupatens and cities.

#### **Graph 6.1 Average Expenditure of Education Departments as a Proportion of Kabupaten, City and Provincial Budgets, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

***Of 37 kabupatens and cities<sup>24</sup> surveyed, 27 spent more than 30% of their budgets on education over the four years (2007-10), 9 spent between 20% and 30% and only one (the kabupaten of Bone) spent less than 20%.*** Indeed, in some regions almost half of local budget resources were spent on education, with Boyolali (in 2009) and East Lombok (in 2010) outstripping the others by spending 56%. By contrast, in only one of the four years studied (2008) did Bone manage to spend 20% of its budget on education. Four other areas, at various times, dropped below the 20% allocation level during the four years surveyed: the city of Banjar did so in 2007, as did the kabupaten of West Sumbawa (in 2010), the city of Pekalongan (in 2010) and the kabupaten of Wajo (in 2007).

#### **Graph 6.2 Average Expenditure by Education Departments as a Proportion of Kabupaten and City Budgets, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

#### **Graph 6.3 Average Expenditure of Education Departments as Proportion of Provincial Budgets, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

<sup>22</sup> The kabupatens of North Aceh, Bojonegoro, Bondowoso, Dompu, North Gorontalo and Sleman did not have complete data for the four budget years under study and are thus not included in this part of our analysis.

<sup>23</sup> The cities of Bandar Lampung, Banjar, Blitar, Gorontalo, Parepare, Surabaya and Surakarta did not have complete data for the four budget years under study and are thus not included in this part of our analysis.

<sup>24</sup> Data for 37 kabupatens and cities only could be accessed. The kabupaten of North Gorontalo and the cities of Bandar Lampung, Blitar, Gorontalo and Parepare are not covered here.

**Except for South Sumatera, provincial governments did not spend a high proportion of their budgets on education:** as a proportion of its overall budget, South Sumatera's spending on education trended upwards during 2007-10, reaching 17% in 2010. In comparison, the other provincial governments spent around 3% or 4%, though Central Java's spent somewhat more than that (graph 6.3).

**Over the four fiscal years studied (2007-10), spending on education in regions surveyed increased not only as a proportion of overall budgetary expenditure, but also in monetary value.** In money terms, average expenditure on education in 29 kabupatens/cities increased by 20% between 2007 and 2010. The biggest increase was in Pekalongan: Rp 173 billion in 2007 rising to Rp 267 billion in 2010 (based on constant 2007 figures). Sizeable increases were also evident in East Lombok and the city of Padang, where spending was 40% higher in 2010 than in 2007.

**Graph 6.4 Expenditure of Education Departments of Kabupatens and Cities, 2007-10, Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**The amount spent by South Sumatera's provincial education department was far greater than in either of the provincial governments on Java and veritably dwarfed expenditure by the government of West Nusa Tenggara (NTB) (graph 6.4).** South Sumatera's education budget rose substantially in 2009 and 2010: up from Rp 181 billion in 2008 to Rp 423 billion in 2010 (constant 2007 prices). South Sumatera's 2010 number was almost double that of either Central or East Java's provincial government. As for NTB, its education budget in 2007 was Rp 61 billion, falling sharply to a mere Rp 18.5 billion in each of the last three years surveyed.

**Graph 6.5 Average Expenditure of Education Departments of the Provinces, 2007-10, Based on Constant 2007 Prices**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**As a proportion of local GDP, the kabupatens surveyed invested considerable amounts in their education sectors.** In 2007, average allocations of 18 kabupatens studied represented 4% of local GDP. The corresponding figure in 8 cities for which data was available was 3.5%. These numbers are quite gratifying: westernized countries like Japan and the Scandinavians invest between 3% and 5.5% in their education sectors.

**Of the five kabupatens surveyed in West Nusa Tenggara (NTB) all (except West Sumbawa) invested a relatively significant portion of their local GDP in education.** As for West Sumbawa, in 2007, even though it had a much bigger economy—with a local GDP of Rp 12.7 trillion, four times greater than the average of the other four—it only allocated Rp 71 billion or 1% of its local GDP to the education sector. By contrast, in the same year (2007) Central Lombok, Dompu, East Lombok and West Lombok each invested more than 5% of their local GDP in education. In fact, among the 30 sub-national governments studied, these four NTB kabupatens ranked among the top eight in terms of expenditure on education as a percentage of local GDP (graph 6.6).

**Large cities tended to spend a small proportion of their local GDP on education.** Five of the eight cities studied—Pekanbaru, Pekalongan, Pontianak, Semarang and Palembang—spent less than 2.2% of local GDP on education. But a small city like Padang Panjang invested as much as 9.1% of local GDP in the education sector—the highest percentage among all the areas studied.

**Four provincial governments studied only spent an average of 0.1% of local GDP on education.** Even though West Nusa Tenggara (NTB) spent more than the others, its 2007 expenditure represented a modest 0.18% of its local GDP of Rp 33.5 trillion. By comparison, East Java—with a local GDP 16 times greater than NTB’s—only spent the equivalent of 0.03% of local GDP on education in the same year.

**Graph 6.6 Expenditure of Kabupaten, City and Provincial Education Departments as a Proportion of Local GDP, 2007**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Rs for 2007-09, APBD-Ms for 2010 and the BPS’s “Kabupatens/Cities in Figures”, processed by the LBS team.

## **6.2 Direct and Indirect Expenditure of Education Departments**

**In contrast to provincial governments, kabupaten and city governments spent a relatively small amount of their education budgets on direct (development-related) expenditure (BL).** In 2007 the 20 kabupatens surveyed only spent 22% of their education budgets as BL, with the remaining 78% being spent on civil service salaries; but that proportion fell to just 15% by 2010. A similar trend, albeit at a slightly higher level, was evident in 9 cities studied: They spent 28% of their education budgets as BL in 2007, falling to 19% in 2010. By contrast, provincial governments spent the bulk of their education budgets as BL: 86% in 2007—leaving just 14% for indirect expenditure—and 74% in 2009 and 2010.

**Graph 6.7 Average Proportion of Education Departmental Budgets of Kabupaten, City and Provincial Governments Spent as Indirect Expenditure, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**Direct expenditure (BL) decreased, as a proportion of the education budget, in the case of West Nusa Tenggara (NTB)’s provincial government, but remained steady in the other three provincial governments.** Over the period studied, the proportion of NTB government BL spent on education fell from 87% in 2007 to just 40% in 2010. The other three provincial governments spent an average of 84% of their education budget as BL throughout the four years studied.

**Graph 6.8 Proportion of Education Budgets of Provinces Spent as Indirect Expenditure, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**Only 7 of the kabupatens and cities studied—located mainly outside Java—spent an average of more than 30% of their education budgets as direct expenditure (BL) during 2007-10.** Of all the places surveyed on Java, the “batik city” of Pekalongan spent the greatest proportion of its education budget as BL: an average of 38% over the period, but down to 19% in 2010. Of 37 areas covered by our study, the kabupatens of Bone and Wajo in South Sulawesi spent the greatest proportion of their education budgets as BL: an average of more than 40% over the period. Indeed, in 2010, Bone appropriated as much as 61% of its education budget for BL programs. Four other areas also spent high proportions of education funds as BL: West Sumbawa and Dompu (both on Sumbawa Island, West Nusa Tenggara) and the cities of Pekanbaru and Padang Panjang (on Sumatera).

**Graph 6.9 Average Proportion of Education Budgets of Kabupatens and Cities Spent as Indirect Expenditure, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

***By contrast, several areas spent less than 10% of their education budgets on direct expenditure (BL) programs.*** Such was the situation in the city of Padang and the kabupaten of Garut especially in the last two years surveyed: in 2007-08, they managed to spend 13% of their education funds on BL programs, but in 2009 and 2010 the proportion was just 5%. Sleman also consistently allocated no more than between 4% and 8% of its education budget for BL programs. The kabupatens of North Aceh, Sumedang, Boyolali, Malang and Situbondo and the city of Surakarta also appropriated less than 5% of their education budgets for BL programs, most notably in 2010. This may have been because central government transfers earmarked for BL were not available for inclusion in original 2010 budgets (APBD-Ms)—one of the documents used in this part of our analysis.

### 6.3 Ratio Between Education Expenditure and Pupil/Teacher Numbers

***The ratio between expenditure on education and the number of primary and junior secondary teachers tended to be higher in cities than in kabupatens.*** On average, city governments surveyed—except for Surakarta, Pekanbaru and Pekalongan—appropriated Rp 23.3 m/teacher/year as indirect expenditure (BTL) on education. That number was higher than average expenditure in all 36 kabupatens and cities studied. Indeed in five cities—Palembang, Pontianak, Palangka Raya and Padang Panjang—BTL was higher still: Rp 30 m/teacher/year or Rp 2.4 m/teacher/month. By contrast in two kabupatens in South Sulawesi—Wajo and Bone—BTL on education was less than Rp 10 m/teacher/year, probably because of large numbers of non-civil service teachers in those areas.

**Graph 6.10 Total Teachers and Average Level of Indirect Expenditure of Education Budgets Per Teacher, 2007-10, Based on Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09, APBD-Ms for 2010 and Education Statistics (Ministry of National Education) processed by the LBS team.*

***In 30 of the 37 kabupatens and cities studied the ratio between direct education spending and the student population was less than Rp 1 m/student/year (graph 6.11).*** Indeed, in the kabupatens of Malang, Cilicap and Garut (all with large pupil populations) and Sleman (which has relatively few pupils), the ratio between direct expenditure (BL) and pupil numbers over the four years studied was only Rp 250 000/pupil/year or a mere Rp 21 000/pupil/month. The city of Padang Panjang, however,—with just 8 500 pupils in primary/junior high school—managed to appropriate BL of Rp 2.8 m/pupil/year. Six other regions with relatively small pupil populations—the kabupatens of West Sumbawa and North Aceh and the cities Pekanbaru, Palangka Raya, Pontianak and Pekalongan—had BL appropriation levels of between Rp1 m and Rp 1.8 m/pupil/year.

**Graph 6.11 Ratio between Student Numbers and Levels of Direct Education Expenditure, 2007-10, Based on Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09, APBD-Ms for 2010 and Education Statistics (Ministry of National Education), processed by the LBS team.*

### 6.4 Programs Supporting Increased School Participation Rates

***On average about 50% of direct education expenditure (BL) in the regions studied was spent in support of the national program to increase participation rates (APS) in 9 years of obligatory basic education, but such expenditure declined between 2007 and 2010.*** In 19 of the 31 kabupatens and cities surveyed the percentage was in fact between 56% and 59% in 2007 and 2008. But it fell to 51% in 2009 and 48% in 2010.

**Graph 6.12 Average Proportion of Kabupaten/City Direct Expenditure on 9 Year Obligatory Education Program, 2007-2010**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**The level of funding committed by governments studied to supporting the 9 Years of Obligatory Education Program varied enormously—between the extremes of 15% and 84% (graph 6.12).** On one hand, four regions in South Sulawesi—the kabupatens of Polewali Mandar, Bone and Sidenreng Rappang and the city of Palu—spent an average of 70% of their education direct expenditure (BL) in support of the program between 2007 and 2010. On the other hand, the kabupaten of Sumedang and the cities of Pekanbaru and Palembang supported it with a mere 15-25% of their BL on education.

**75% of the money spent by regions surveyed in support of the 9 Years of Obligatory Basic Education program went towards infrastructure.** Only three regions—the cities of Surabaya and Semarang and the kabupaten of Aceh Besar—spent more than 50% of the money dedicated to supporting the obligatory education program in areas other than infrastructure. But eight regions—the kabupatens of Polewali Mandar, Sumedang, Situbondo, Serdang Bedagai and Cilicap, and the cities of Surakarta, Pontianak and Padang Panjang—spent 85% of their support for the program on infrastructure.

**Graph 6.13 Average Proportion of Kabupaten/City Direct Education Expenditure on Infrastructure in Support of 9 Years of Obligatory Basic Schooling and Classroom/Pupil Ratios, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09, APBD-Ms for 2010 and Education Statistics (Ministry of National Education), processed by the LBS

**An examination of the pupil per classroom ratio in the areas studied indicated that most of the kabupatens and cities surveyed did not need to construct new classrooms (graph 6.13).** The ratio of 40 or more pupils per class occurred in only a few areas—the kabupatens of Malang and Sidenreng Rappang and the cities of Pekanbaru, Palembang and Surabaya. Ministry of National Education data indicated that, on average in the 42 kabupatens and cities studied, 32% of existing classrooms were either slightly or seriously damaged. Despite these numbers, appropriations for education infrastructure in the city of Surabaya and the kabupaten of Sidenreng Rappang, for example, were low compared to other regions.

## **6.5 Programs Supporting Better Quality Education**

**Data from the Ministry of National Education indicates that the majority of teachers and school principals in Indonesia are not fit to teach.** 79% of Indonesia's 1.3 million state primary school teachers fall into the "unfit to teach" category; and 27% of the country's 421 000 state junior high school teachers are in the same category. These figures underline how important it is that local governments, responsible for education at the primary and junior high school levels, give priority to improving the quality of teachers.

**Graph 6.14 Average Proportion of Kabupaten/City Direct Education Expenditure on Better Quality Education programs, 2007-10**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

**Only a few of the regions surveyed appropriated meaningful levels of funding for programs aimed at improving the quality of primary and junior high school teachers.** Of the 33 regions for which data was available for this analysis, just 24%—five cities: Surakarta, Padang Panjang, Pekalongan, Surabaya and Palembang and three kabupatens: Serdang Bedagai, Central Lombok and Dompu—appropriated more

than 9% of their direct education expenditure for programs to improve the quality of teachers. All the other regions spent very little in this important area.

## **6.6 Programs Supporting Non-Formal Education**

***Funding for non-formal education was at the same low level as for programs to improve teacher quality.*** But, of course, non-formal education plays an important role in enhancing the skills needed by the formally uneducated to help them to find work—an important step towards overcoming poverty. On average, 31 kabupatens and cities, for which data was available for this analysis, spent a mere 1.3% of their education BL in support of non-formal education. Of all the regions, Aceh Besar spent most—±5% of education BL—while 25 other regions put aside just 2% for the purpose.

### **Graph 6.15 Average Proportion of Kabupaten/City Direct Education Expenditure on Non-Formal Education, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*



## 7. Analysis of Health Budgets

The health sector is very important and has a significant impact on the quality of people's lives. Government plays a critical role in the health sector, especially in the case of the poor and of people who live in areas with minimal private health services. It is very important, therefore, to examine Indonesian local government health budgets to establish their level of commitment to health funding; and to ascertain where the funding is coming from and how it is being spent. Given that the data available for this study was limited, in terms of both quantity and quality, this chapter focuses on two representative elements of the health sector: local government-funded health services and local government hospitals.

### 7.1 Analysis of Expenditure on Health

***On average, provincial governments surveyed spent more of their budgets on health services and hospitals than did kabupatens and cities.*** Average provincial government spending in these areas rose in the last 3 of the 4 years studied from 9.1% of total budgetary spending in 2008 to 12.2% in 2010. This was more than kabupatens could manage: they spent an average of 9.6% of total budgets in 2007, rising to 10.3% in 2010. City governments, on the other hand, spent less than both provinces and kabupatens: a steady average of 8% in each of the four years studied. Law No. 39/2009 on health stipulates that a minimum of 10% of local budgets (excluding expenditure on civil service salaries) should be spent on health services and hospitals. Provincial and kabupaten governments managed to achieve that percentage and thus, on average, satisfied formal legal requirements.

#### **Graph 7.1 Average Proportion of Budgets Spent on Health Services and Hospitals By Kabupatens, Cities and Provinces, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010 for 21 kabupatens, 11 cities and 5 provinces, processed by the LBS team.*

*Note: The proportion of provincial spending for 2007 is based on information from 3 provinces, while for 2008-10 it is based on data for 4 provinces.*

***The 32 kabupatens and cities studied allocated an average of 9% of their total budgets to health services and hospitals during the 4 years studied.*** But in fact only 14 regions actually achieved the 9% figure; the other 18 did not manage to do so. Two kabupatens performed best: Pekalongan (with 15%) and Semarang (13%). The cities of Padang and Surabaya performed worst with 6%. A look at graph 7.2 shows that four governments—the kabupatens of Pekalongan and Semarang and the cities of Pekalongan and Padang Panjang—at some point in the four year period studied, spent more the 15% of their budgets on health services and hospitals; but six kabupatens/cities did not at any time over the same period spend more than 8% of their budgets in these areas.

#### **Graph 7.2 Proportion of Budgets Spent on Health Services and Hospitals By Kabupatens and Cities, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for several areas, processed by the LBS team.*

#### **Graph 7.3 Average Proportion of Budgets Spent on Health Services and Hospitals By 5 Provinces Over Past 4 Years, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010 for several areas, processed by the LBS team.*

***In general, provincial governments studied (except for West Nusa Tenggara (NTB)) steadily increased the proportion of their overall budgets spent on health services and hospitals during 2007-10 (graph 7.3).*** In 2008 the government of South Sumatera spent less than the other three provinces on these programs (just 5% of its total budget), but managed to lift its performance in each subsequent year by around 4% to 12% in 2010. By comparison, Central Java appropriated a relatively high proportion (11%) of its total budget for health services and hospitals in 2008, and managed to increase the amount by 2% in both 2009 and 2010 (when it reached 15%). East Java dramatically increased its spending on health services and hospitals in 2010 to 19% of its entire budget. These numbers show that in 2010 these three provinces satisfied the 10% spending requirement in law No. 36/2009. As for NTB, the drop in the proportion of its budget dedicated to health services and hospitals to just 2% in 2010 might have resulted from classification of health sector expenditure (in the form of financial assistance and grants) as “transfers”.

***Most of the 32 kabupatens and cities studied increased the monetary value of their expenditure on health services and hospitals during the period under study.*** Only 9 spent less on health in 2010 than they had in 2007. The biggest decrease was in the city of Palangka Raya: down from Rp 37 billion in 2007 to Rp 27 billion in 2010. The biggest increase was in the city of Surabaya: up by 40% in real terms between 2007 and 2010.

***There was no direct correlation between total amounts spent on health services and hospitals and per capita rates of expenditure.*** Thus, in real terms, the city of Pandang Panjang spent less than any other region studied but had a per capita expenditure rate that surpassed all the others. Conversely, although Surabaya spent very large amounts on health services and hospitals, on a per capita basis it only spent the average of the regions studied. All this goes to show that, when population size is factored in, a high level of expenditure does not necessarily mean that people’s health needs are being met.

**Graph 7.4 Total Expenditure on Health Services and Hospitals by Kabupatens and Cities (2007-10) and Per Capita Expenditure**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010 for several areas, processed by the LBS team.

## **7.2 Direct and Indirect Expenditure on Health Services and Hospitals**

***The proportion of provincial government direct (development-related) expenditure (BL) on health services and hospitals increased over the period but declined in kabupatens and cities.*** Taking the average of the four provinces studied, their proportion of BL dropped slightly in 2009, but rose in both 2008 (to 68%) and in 2010 (71%). Although not so significant, this increase was a better outcome than in the kabupatens and cities surveyed: there, BL on health services and hospitals declined from 2008 onwards. This decline reflected an increase in indirect (routine administrative) expenditure (BTL) on civil servants. On one hand, such a change can be a good if it means more money is being spent on medical staff (doctors, midwives and the like), but, on the other, if spent on civil service administrative staff, it can have a bad effect on the quantity and quality of health service delivery.

**Graph 7.5 Proportion of Direct Expenditure on Health Services and Hospitals by Category of Local Government (2007-10)**

(This graph is available only in the Indonesian text of this publication)

Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.

***Kabupatens and cities studied varied greatly in terms of the proportion of their health budgets spent on direct (development-related) expenditure (BL).*** Average BL among kabupatens/cities on health services

and hospitals varied hugely from one to the other between 2007 and 2010. Thus, the kabupaten of Pekalongan spent more than 70% of its health BL on those programs, whereas the city of Pekanbaru could only manage to apportion 31%. An examination of the annual BL health allocations indicates that one city (Pekalongan) at one point topped 90%, whereas four other kabupatens/cities never did better than 50%.

**Graph 7.6 Proportion of Direct Expenditure on Health Services and Hospitals by Kabupatens and Cities, 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

***The amount a region spent as indirect (routine administrative) expenditure (BTL) did not always mean that it had a satisfactory ratio between medical staff and population.*** Several kabupatens/cities appropriated more than 50% of their health services and hospitals budget for BTL programs, but still had only 3 health sector staff per 1 000 people. But in some areas—such as North Aceh, West Aceh, Aceh Besar and the city of Pekanbaru—increased BTL did mean more medical staff per capita. The situation in Parepare was particularly interesting. Although it spent less than 40% of its health budget on BTL programs, it managed to have 5 health sector workers per 1 000 people. These comparisons show how BTL can best be used: to reinforce the number of operational medical staff.

**Graph 7.7 Proportion of Indirect Expenditure on Health Services and Hospitals and Number of Medical Staff per capita, 2008**

*(This graph is available only in the Indonesian text of this publication)*

***Although health fees and charges remained an important source of local own-source revenue (PAD) for the 19 kabupatens studied, their contribution to kabupaten revenue declined over the period studied.*** But in the 10 cities surveyed the opposite trend was in evidence. In 2007 the contribution of health fees and charges to city revenue (10%) was less than for kabupatens (19%). But by 2010 health fees and charges were contributing less of kabupatens' PAD (16%), but more for city governments (15%).

**Graph 7.8 Health Fees and Charges as a Proportion of Local Own-Source Revenue (PAD), 2007-10**

*(This graph is available only in the Indonesian text of this publication)*

***Special central government fiscal transfers to kabupatens/cities to supplement direct (development-related) expenditure (BL) on health services and hospitals declined slightly during the period studied.*** Included among such transfers were: Special Allocation Fund (DAK) and infrastructure adjustment funding earmarked for health programs. Apart from these special transfers, regions also received transfers from the General Allocation Fund (DAU) and Revenue Sharing Fund (DBH) which could be spent at the discretion of regional governments, subject to planning and budgetary processes. And of course there was also local own-source revenue (PAD). On average, patterns of health expenditure indicated that the level of special central government transfers for health services and hospitals declined slightly between 2007 and 2010.

**Graph 7.9 Contribution of Central Government Special Health Transfers to Direct Expenditure on Health Services & Hospitals**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS (?? Corrected original's "2008" to read 2007)*

*Note: "Special health transfers" are program funding from such sources as the DAK and the infrastructure adjustment fund whose use is determined by the central government.*

### 7.3 Health Services and Hospital Programs Involving Direct Expenditure

*In general, more than 90% of direct (development-related) expenditure (BL) on health by health departments and hospitals was spent on administration, health care equipment and mandatory curative health programs.* Even though, on average, the proportion of local health departments' and hospitals' spending on administration and health care equipment declined over the last 3 years studied (2008-10), it ended up still being 15% of their budgets. At the same time, expenditure on mandatory curative health programs, although on the increase, constituted less than 85% of BL on health. Most of that 85% was used to upgrade and maintain health facilities; to procure medicines and health supplies; and to operate community health service clinics: *puskesmas* and *posyandu*, in particular. But, for all that, average BL spent on community health programs was very limited: less than 2% was spent on improved public nutrition levels, preventive medical care for young children, improved community health, care of birthing mothers and newborns and other preventive or advisory health services.

**Table 7.1 Break-down of Programs Funded by Regional Health Departments and Hospitals, 2008-10**

PROGRAM	Average Value					
	2008		2009		2010	
	Rp Million	%	Rp Million	%	Rp Million	%
Administrative and Bureaucratic Programs (Codes < 15)	5 597	19.8%	5 545	17.0%	5,353	15.7%
Obligatory Health Programs (Codes > 15)	22 700	80.2%	27 081	83.0%	28 748	84.3%
Community Health Drives	5 059	17.9%	6 623	20.3%	8 153	23.9%
Medicines and Pharmaceutical Items	3 348	11.8%	2 604	8.0%	7 331	21.5%
Oversight Control of Medications and Food	59	0.2%	40	0.1%	36	0.1%
Promotion of Community Health	253	0.9%	274	0.8%	776	2.3%
Improvement of Community Nutrition	316	1.1%	339	1.0%	345	1.0%
Development of Healthy Living Environments	238	0.8%	202	0.6%	140	0.4%
Prevention and Control of Infectious Diseases	706	2.5%	649	2.0%	598	1.8%
Standardization of Health Services	306	1.1%	534	1.6%	200	0.6%
Health Services for the Poor	145	0.5%	1 052	3.2%	1 300	3.8%
Supply/Enhancement of Health Infrastructure/Facilities	5 984	21.1%	7 409	22.7%	3 396	10.0%
Supply/Enhancement of Hospital Infrastructure/Facilities	5 770	20.4%	6 816	20.9%	5 665	16.6%
Hospital Care and Maintenance	308	1.1%	334	1.0%	467	1.4%
Oversight and Control of Foodstuffs	10	0.0%	5	0.0%	11	0.0%
Improved Health for Children under 5 yrs	37	0.1%	13	0.0%	51	0.1%
Improved Health Service Delivery for the Aged	17	0.1%	12	0.0%	16	0.0%
Improved Safety Standards for Birthing Mothers/Babies	101	0.4%	82	0.3%	82	0.2%
Partnership for Improved Health Service Delivery	43	0.2%	92	0.3%	181	0.5%
<b>Totals</b>	<b>28 297</b>	<b>100.0%</b>	<b>32 626</b>	<b>100.0%</b>	<b>34 100</b>	<b>100.0%</b>

*On average, all kabupatens and cities studied, except for the cities of Parepare and Banjar, spent less on caring for birthing mothers and infants than Bappenas' minimum benchmark of Rp 65 000/person.* The health of birthing mothers and newborns remains one of Indonesia's most pressing health issues at the sub-national level. But local governments studied were often not giving the problem the attention it deserved. Of 34 kabupatens and cities for which statistical data was available, 32 spent less than Rp 46 000/person on securing the health of birthing mothers and newborns: considerably less than the Bappenas benchmark. Indeed, in Kendal, only Rp 2 000/person/year was appropriated for such programs: clearly

unsatisfactory, particularly if the area concerned faces serious issues in regard to birthing mothers and newborns.

**Graph 7.10 Per Capita Expenditure on Birthing Mothers and Babies Health Programs**

*(This graph is available only in the Indonesian text of this publication)*

## 8. Analysis of Budgets for Womens Empowerment

The establishment of offices for womens empowerment in every local government area in Indonesia is part of the drive, mandated in Presidential Instruction No. 9/2000 and Government Regulation No. 41/2007, to accelerate the process of gender mainstreaming (PUG for short in Indonesian) throughout Indonesia; and to encourage development of gender-responsive policies in every area of economic development.

### 8.1 Institutional & Budgetary Support for Womens Empowerment and PUG

*The 2010 study of Performance in Management of Local Budgets (KIPAD) found that only 23 of 42 kabupatens and cities studied had established PUG work units.* Only one of the 23, Serdang Bedagai, had set up all three of the institutional units required by government decree: a working group (*Pokja* for short in Indonesian), a gender mainstreaming focal point (PUG focal point, for short) and a gender responsiveness analysis team (ARG for short). 14 others had established two of the three: most opted for Pokjas, except for Situbondo and West Lombok which formed both Pokjas and ARGs. The other 8 had established just one of the three: opting for either a Pokja or a PUG focal point.

#### Graph 8.1 Progress Made in Establishing Gender Mainstreaming Offices

*(This graph is available only in the Indonesian text of this publication)*

*The five provincial governments surveyed spent considerably more than kabupatens/cities on womens empowerment and PUG programs.* In terms of aggregate spending over the 4 years studied (2007-10), the provincial government of West Java spent most on these programs—a total of Rp 16.4 billion; and West Nusa Tenggara spent least—Rp 2.3 billion.

#### Graph 8.2 Total Value of Provincial Expenditure on Womens Empowerment and PUG Programs, 2007-2010 (Rp billion), Based on Constant 2007 Prices

*Although the kabupatens and cities studied all formed womens empowerment work units, they allocated only limited funding to PUG programs (graph 8.3).* Only 16 regions—just 42% of those studied—allocated more than Rp 1 billion in aggregate—an average of just Rp 250 m/year—to such programs between 2007 and 2010. Only the cities of Surabaya and Surakarta (both on Java) appropriated reasonably sizeable amounts to such programs over the period studied: Rp 7.7 billion (Surabaya) and Rp 5.4 billion (Surakarta). By contrast, Bojonegoro, East Lombok and Central Lombok spent least: less than Rp 140 million in total over 4 years. Generally speaking, regions with womens empowerment work units in place allocated an average of 50% more for womens empowerment programs than those without them.

#### Graph 8.3 Aggregate Expenditure on Womens Empowerment and PUG Programs, by Kabupatens/Cities, 2007-10 (Rp m) Based on Constant 2007 Prices

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

### 8.2 Programs Supporting Offices for Gender Mainstreaming (PUG), Womens Empowerment and Child Protection

**Overall, four programs fall into the above category:** (i) programs to strengthen institutionalization of PUG and protection of children; (ii) programs to harmonize policies to

enhance capabilities of women and children; (iii) programs promoting PUG and child protection; and (iv) programs of policies aimed at enhancing capabilities of women and children.

**Graph 8.4 Appropriations for Programs Supporting PUG Work Units, 2007-10 (Rp billion), Based on Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

***Eight regions consistently allocated funding in support of programs to strengthen institutional support for gender mainstreaming (PUG) (graph 8.4).*** The city of Surakarta allocated most of all: Rp 2 billion in 2008, but less in the following two years. Two provincial governments (Central Java and South Sumatera) spent progressively more in these areas over the 4 years (2007-10), but Central Java's level of spending far exceeded that of South Sumatera.

***The City of Surakarta's performance in this area was notable in several respects.*** In 2008-09, the city government spent Rp 2.1 billion on a program of capacity building and development of institutional support for empowerment of women and children; between 2008 and 2010 it developed a database on women and children; and over the period 2007-2009 it conducted a public awareness campaign on health, gender issues, womens empowerment and the protection of children.

***Central Java's provincial government used its funding to put in place several local government regulations.*** In 2009 it promulgated local regulation No.3/2009 on *Providing Support for the Victims of Gender-based Violence*; in 2010 it commissioned an academic study in preparation for drafting a local regulation on the protection of children; and submitted the completed study to the local legislative assembly (DPRD) for discussion. And, over three budget years (2008-10), it developed a database on gender issues, conducted capacity building programs and formed a network of PUG-related community linkages.

***21 kabupatens and cities and 3 provincial governments studied set up "integrated service centers for womens empowerment".*** The first regions to do so (in 2007) were West Aceh, Aceh Besar, Cilicap, Semarang, Bone and Polewali Mandar and the cities of Pekalongan and Surakarta. Other areas followed their lead in 2008-09: Serdang Bedagai and the city of Surabaya in 2008 and Sumedang, Boyolali, Pekalongan and the city of Parepare in 2009. The remainder—Central Lombok and the cities of Palembang, Banjar, Semarang and Blitar—followed suit in 2010. At the provincial level, the governments of East Java, Central Java and South Sumatera also dedicated funds to the establishment of such offices.

### **8.3 Programs Supporting Enhanced Womens Participation in Development**

***Two programs fall into this category:*** (i) Increasing the participation of women and the level of gender equality in development; and (ii) Enhancing the role of women in village areas.

***Six regions consistently appropriated funding for programs to enhance womens participation in development.*** The city of Surabaya and the kabupatens of Pekalongan and Aceh Besar consistently funded such programs with higher levels of funding each year. By contrast, Situbondo and the city of Palu spent less and less on these programs over the four years studied. At the provincial level, the government of South Sumatera was alone in showing any meaningful budgetary commitment to enhanced womens participation programs.

***The city of Pekalongan's main activities in this area were education and training for womens groups.*** It conducted two separate training programs—albeit with limited annual funding (below Rp 50 million (current prices) for each)—throughout the four years studied: one on enhanced female participation and gender equality in development and the other on improved business management techniques for women. It also invested Rp 200 million each year (current prices) in capacity building and performance enhancement programs for womens groups.

**Graph 8.5 Appropriations for Programs Supporting Enhanced Womens Participation, 2007-10 (Constant 2007 Prices)**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

***Several areas began to make moves, albeit modest ones, to encourage females to participate more actively and take up positions in politics and public office.*** In 2007-08 the city of Surakarta funded the development of a policy framework in precisely this area; and Garut and Wajo and the provincial government of Central Java did likewise in 2009-10. In 2009 West Java funded the establishment of an Indonesian female political caucus. But despite all that, not one of these regions consistently allocated funding for these sorts of activities over the four years studied.

### **8.3 Programs Supporting Protection of Women and Children**

***Programs encompassing efforts to protect women and children include the following:*** (i) social and humanitarian assistance programs; (ii) programs to enhance the quality of life and the protection of women; (iii) programs to enhance the welfare and protection of women and children.

***During the four years under study provincial governments surpassed other regions studied for consistency in allocating funds for programs to protect women and children.*** Among cities studied, only two (Pekalongan and Surakarta) appropriated budgetary resources for such programs; but the amounts of money involved were not great and showed little sign of increasing during the period studied. By contrast, West Java's provincial government appropriated substantial amounts for such programs: Rp 3 billion in 2009, up to Rp 6 billion in 2010 (constant 2007 prices). The governments of South Sumatera and Central Java also budgeted for very significant levels of spending on programs to protect women and children: around Rp 1.4 billion in 2010 (constant 2007 prices).

***Central Java's provincial government focused its attention on protection of victims of trafficking and on its "integrated service center for womens empowerment".*** In 2010 it appropriated Rp 3.14 billion (current prices) for prevention of people trafficking and for handling and care of victims of trafficking. In 2010 it allocated Rp 1.35 billion (current prices) to support its integrated service center. And over the two year period 2009-10, albeit with more limited funds, it sponsored two other activities: one to establish mechanisms for the protection of women and the other to conduct a public awareness and advocacy campaign on the protection of women in the workplace.

**Graph 8.6 Appropriations for Programs Supporting Protection of Women and Children, 2007-10 Constant 2007 Prices**

*(This graph is available only in the Indonesian text of this publication)*

*Source: APBD-Rs for 2007-09 and APBD-Ms for 2010, processed by the LBS team.*

***The city of Pontianak displayed a high level of commitment to the protection of females and children, especially during the last two years studied.*** During 2009-10 it consistently provided funding for programs directed at protection of children, control of juvenile delinquency and handling cases of



domestic violence. In 2010 it funded construction of a shelter for victims of violence and for development of Pontianak as a “children friendly city”.

***Among the regions studied, only the city of Surakarta provided funding support for programs for the handicapped.*** The city already had such programs in place in 2007 and 2008. It was a similar story with programs for the elderly: only the city of Surabaya made provision for aged citizens—in its 2008 budget. This situation illustrates the extent to which the handicapped and the aged are discriminated against in local government budgets.

## 9. CONCLUSIONS AND RECOMMENDATIONS

1. ***The contribution made by other lawful own-source revenue (LPDS) has been constantly rising over the last several years.*** One of the main stimuli for growth in LPDS has been the introduction of infrastructure adjustment funds which basically doubled up on the Special Allocation Fund (DAK). Not only have adjustment funds lacked clear eligibility criteria, they have also required no counterpart financing from recipient local governments. Moreover, some areas receiving high levels of DAK funding have been chosen to receive adjustment funding as well, while others, inadequately funded by the DAK, have received no adjustment funding. Such a situation not only violates principles of fiscal decentralization in Law No. 33/2004, but also reflects poorly on the administration of adjustment fund programs. Almost all regions could only properly “administer” their 2009 adjustment fund grants at the end of the fiscal year after grants had been spent. ***Recommendations: That infrastructure adjustment funds be abolished and amalgamated with the DAK; that the DAK itself have more transparent allocation criteria and concentrate on fewer and thus better funded areas of activity.***
2. ***Local fiscal discretion is on a downward slide: spending on bureaucracies is increasing; and expenditure on goods & services is decreasing.*** Lack of local government interest in downsizing, or at least not increasing, civil service numbers has meant that more and more local government money has been spent on local bureaucracies. Moreover, 95% of General Allocation Fund (DAU) transfers are spent exclusively on local bureaucracies without any incentive for local governments to reduce civil service costs and spend more on enhancing community welfare. Ever tighter fiscal situations have progressively reduced funding for capital expenditure and for provision of goods & services—so sorely needed for community welfare and for local economic development. ***Recommendations: That local governments be encouraged to reduce expenditure on civil servants; options for doing so include removing civil service costs as a component of DAU and offering incentives—for example, via a regional incentives fund—to local governments to reform and streamline their bureaucracies.***
3. ***The full benefits of mid-year budget revision processes—to make budgets better targeted—are still not being enjoyed.*** Budget revision processes have undoubtedly improved budget planning by making it more realistic. But local governments are still generally underestimating their income, leaving them at year’s end with more revenue than they expected to receive. At the same time, mid-year revised expenditure targets have been becoming more and more unrealistic especially in the areas of capital expenditure and provision of goods & services. End-of-year budget outcomes are not far off what was envisaged in original budgets (APBN-Ms), but are way below mid-year revised APBD-P expenditure targets. The result is a double whammy: under-achievement of expenditure targets and over-achievement of revenue projections. That results in turn in sizeable unspent budgetary surpluses (SiLPA) at year’s end. And let’s not forget that civil society plays only a very limited role in budget revision processes. ***Recommendations: (i) That government consider an incentives scheme to encourage more efficient mid- year budget revision processes similar to the scheme in place for original budget (APBD-M) processes — when governments not adopting budgets on time have their DAU allocations cut; (ii) That technical regulations be passed making it mandatory for mid-year budget revision processes to be transparent and participatory; and (iii) That civil society pay closer attention to mid-year budget revision processes.***
4. ***Overall spending on social aid and grants remains high—though its composition is changing: spending on social aid is decreasing while expenditure on grants is rising.*** The main problems

with these two areas of expenditure are lack of transparency in their planning and unclear allocation and expenditure criteria. They are thus very susceptible to misuse for personal or political purposes. The Ministry of Home Affairs has sent out circular letters to try to limit the use of these budget line items, but seemingly without good effect. **Recommendations:** (i) *That government issue stricter regulations on expenditure on social aid and grants: for example, by setting an upper limit on the amount of local budget resources that can be allocated for these line items;* (ii) *That the implementation of such regulations be closely monitored with a system of clearly defined incentives and sanctions;* and (iii) *That civil society more closely monitor the allocation and expenditure of social aid and grant funds.*

5. ***Allocations for education are quite satisfactory in aggregate terms, but the way they are dispersed within the education sector needs to be improved.*** Most education funding is currently spent on civil service costs or education infrastructure. Except in a few areas, student-teacher and student-classroom ratios are quite reasonable. What is in short supply, however, is money to enhance the quality of education and of teachers who deliver it. In fact, the Ministry of National Education has acknowledged that most Indonesian teachers are not adequately qualified. **Recommendations:** (i) *That advocacy on education no longer focus on increased levels of expenditure on education but rather on how available funding can be spent to maximum effect;* (ii) *That indirect (routine, administrative) education expenditure be no longer directed at increasing the number of teachers but rather at boosting income levels of existing teachers;* and (iii) *That direct (development-related) expenditure be spent on enhancing teacher quality.*
6. ***Low levels of funding for capital expenditure and provision of goods & services means that funding for health services and public works are very limited.*** Overall, the funds available for these two sectors is very limited indeed: for example, funding available for critically important maternal and neonatal health services is way below what is needed; and declining public works funding for roads and bridges is insufficient even to maintain existing infrastructure. Budgets for irrigation are also quite low, despite its importance for agriculture—still the mainstay of many local economies. Development of public works is not just an important community service: it also stimulates economic growth and, at the end of day, increases local government tax revenue. **Recommendations:** (i) *That local governments allocate higher levels of funding for health and public works and improve their policy frameworks for allocating such funding;* and (ii) *That government consider setting up special programs for central intervention in these two sectors, paying due attention to shared responsibilities inherent in regional autonomy.*
7. ***Womens empowerment and gender mainstreaming are still thin on the ground in sub-national governments.*** All regions studies now have special local work units responsible for womens empowerment and some have begun setting up legally mandated institutional support mechanisms. But most regions lack stable funding for the development of strategic programs like data collection and use, analyses of gender issues, enhanced womens participation in politics and protection of women and children. **Recommendation:** *That public advocacy henceforth focus on supporting the implementation of strategic womens programs that are supported by adequate and stable funding.*